A Banking History of Louisiana

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CHAPTER I

INTRODUCTION

THE history of banking in the United States can be conveniently—if arbitrarily—divided into five periods. The first of these periods began "with the conception of the Colman Bank, which never really got farther than that," in 1715. The second period began in 1781 with the establishment of the Bank of North America; the third, with the passage by the New York Legislature, in 1838, of a bill requiring the securing of bank notes by the deposit of stock;[1] and the fourth, in 1863, with the establishment of the national banking system.[2] This division into periods, made, in 1893, on the basis of the revolutionary changes in the banking system, would if made today require the addition of a fifth period—that beginning with the establishment of the Federal Reserve System in 1913.

During the first period, that ending in 1781, the year in which Pennsylvania chartered the Bank of

[1]The Legislature of Michigan anticipated the New York Law in 1837 by passing a law which required deposits of stock as a guarantee for bank notes. The Michigan Law, however, was not effectively administered and New York has been pointed to as the pioneer in this field. (See White, Horace: *Money and Banking*, p. 326.)

[2]Harter, M. D.: "American Banking," *American Academy of Political Science*, Vol. III, March, 1893, pp. 559-564.

North America, there were no institutions that performed the services now considered the proper functions of a bank, though several companies were organized for the purpose of issuing notes.[3] All the colonies, with the exception of Virginia, issued paper money, which varied in value according to the credit of the colonies and the quantity of the money in circulation. In 1776 the colonial government began to issue paper money, which "on 31st of May, 1781, ceased to circulate as money, but . . . afterwards was bought on speculation from 400 to 1 up to 1000 to 1."[4]

The second period in American banking began in 1781 with the establishment in Philadelphia of the Bank of North America, the first bank in the United States. The Bank of Massachusetts and the Bank of New York were established in 1784, and the Bank of Maryland, in 1790. The capital stocks of all of these banks, which totaled $4,850,000, were paid in specie; and all the banks received deposits and made loans. Perhaps their most important function was that of stabilizing the currency through their issues of redeemable notes.

In 1791 the First Bank of the United States was chartered. This bank was organized to provide sufficient quantities of sound currency and to assist in financing the government. Nine branches of this bank were later established in different parts of the country. Capitalized at $10,000,000, of which $2,000,000 was subscribed by the government, the

[3]Gouge, Wm. M.: "A Short History of Paper Money and Banking," *Journal of Banking*, pp. 207-224.
[4]*Ibid.*

bank was permitted to open for business when the sum of $400,000 had been paid in.

> One-fourth of all subscriptions, private and corporate, was to be paid in specie, and three-fourths in United States stock bearing 6 per cent interest, payable in four equal semi-annual payments.[5]

During the twenty years that followed the establishment of the First Bank of the United States, the growth in population of the country, the addition of new territories, the stabilization of the currency, and the greater need for credit facilities consequent upon the growth in business and commerce—all caused an increase in the number of banks from 4 to 100, and in the banking capitalizations from $4,850,000 to about $48,000,000.[6] In all these banks the proportion of note issues to capital stock varied, but in general it can be said that the ratio was from two to three times the amount of paid-in capital.

> The end of the 18th century was characterized in this country by bitter political controversy. A bit of the leaven of the French Revolution was at work on this side of the Atlantic. The old order was giving place to the new and more democratic regime . . . and the banks then in existence could not avoid becoming involved to some extent in the controversy . . . All through the first decade of the 19th century politics played a big part in the development of banking. The political upheaval of 1800 put the Republicans in control of most legislatures, and they proceeded forthwith to retaliate against the Federalists, who, while in power, had sought to maintain a monopoly of banking privileges.

[5]Holdsworth, J. T.: "The First Bank of the United States," *National Monetary Commission*, Vol. IV, p. 19.

[6]*House Document No. 3704*, Vol. 76, pp. 207-240.

The Republicans in Congress also showed their hostility to the First Bank of the United States, which they regarded as a Federalist institution. In 1811, when the Bank's charter expired, the effort to obtain its renewal became a political issue . . . and when the message (a bill providing for the renewal of the Bank's charter) came up for passage in the House of Representatives, it was defeated by a single vote, and in the Senate it was lost by a tie.

During the twenty years of its existence the Bank of the United States had exerted a strong influence in behalf of sound currency. It had refused to receive the notes of state banks which did not readily redeem their issues with specie, and this was probably the main reason why they had united in opposition to a renewal of its charter. It had also acted as fiscal agent of the government, transferring its funds without charge, carrying most of its deposits, and making loans to the Treasury whenever these were needed.[7]

During the four years following the expiration of the charter of the First Bank of the United States and the establishment in 1816 of the Second Bank of the United States, the number of banks jumped to 208, and the capital more than doubled. This growth in the number of banks and in the amount of bank capitalization was accompanied by an equally impressive growth in the general prosperity of the people, who with typical boom-time exuberance and short-sightedness attributed the growth in their fortunes mainly to the banks.

The desire of accumulating wealth without the dull exercise of labor engendered a spirit of speculation. It was supposed that the mere establishment of banks would of itself create capital, that a bare

[7]Scroggs, Wm. O.: *A Century of Banking Progress*, pp. 14-15.

> promise to pay money was money itself, and that a nominal rise in the prices of land and commodities ever attendant upon a plenty of money was a real increase of substantial wealth . . . Under these delusive impressions associations of individuals sprang up in every quarter holding inducements to the farmer, the merchant, the manufacturer, and the mechanic to abandon the dull pursuits of a laborious life for the golden dreams of an artificial fortune.[8]

This boom-time hysteria over what was thought to be a veritable bonanza was not, however, so general as to blind the eyes of wiser men to the prime financial exigencies of the time—to wit, resumption of specie payment and the stabilization of the currency. And though by 1816 it was generally recognized that resumption was the single condition of currency stabilization, the government, with the existing means at its disposal, could in effect do nothing. To require resumption of the banks meant either that the government would visit the sins of the banks upon their innocent creditors, or that the government itself would have to repair the losses to the creditors.[9] Either was unacceptable, and to solve the problem the government in 1816 chartered the Second Bank of the United States.

This Second Bank of the United States began operations in January, 1817. Its charter was to run for twenty years, and for its franchise the Bank paid to the government the sum of $1,500,000. Of the $35,000,000 capital the government subscribed $7,000,000. The Bank was forbidden to obligate itself to any amount exceeding its capital, and five

[8]Raguet, Condy: *Currency and Banking*, pp. 296-298.
[9]Dewey, Davis R.: "The Second Bank of the United States," *National Monetary Commission*, Vol. IV, p. 152.

of the twenty-five directors were to be appointed by the President of the United States.[10]

In the first eighteen months of its existence the Bank attempted to stabilize the currency by substituting for the numberless unstandardized state bank notes notes of its own issue. It estimated that $20,000,000 of the notes would be needed, but it was unable to issue more than $10,000,000, simply because of the physical inability of the president and vice-president to sign a larger number of notes. However, as later events proved, the result would have been the same even if the Bank had succeeded in circulating a larger number of notes. For, during the whole time that the Bank was making the issues, the notes were falling in value. This decline in the value of the notes was caused by the great exportation of specie from the country; and the Bank was unable, with its comparatively slight resources, to stop the fall. In the face of the withdrawal of some $12,000,000 in specie from the country, the Bank was comparatively helpless; and its own purchases from foreign countries of upwards of seven millions in specie did no more than defer the inevitable crash, which came in July, 1818.[11]

In that year the people were treated to the familiar spectacle of banks attempting to protect themselves in time of panic. All the banks, including the Second Bank of the United States, followed the usual course of banks at such a time; and the people suffered the usual evil consequences. By 1824 recovery had set in and Nicholas Biddle had been made president of the Bank to replace Cheves, who

[10] *Ibid.*, pp. 152-157.
[11] Gouge, Wm. M.: *Op. cit.*, p. 288.

had been acting president since 1818. Under Biddle's administration the Bank had fair sailing until 1829, the year Jackson delivered his first blow at the Bank. In 1832 the proponents of the Bank presented to Congress a bill providing for a recharter. The old charter did not expire until 1836; but the friends of the Bank, believing that Jackson would not dare to refuse a charter on the eve of his campaign for re-election, "determined to stake its existence on a turn of politics . . . The measure passed. Jackson accepted the challenge and vetoed the bill."[12]

Jackson was re-elected. He naturally felt that his election was a mandate from the people to destroy the Bank; and one of the first official acts of his second term was that of transferring the government funds on deposit at the Second Bank to banks operated by his supporters. In retaliation for this blow the Bank instituted a retrenchment policy with a view to showing the people the error of their way in sanctioning Jackson's refusal to recharter the Bank. This action of the Bank had, however, the very opposite of the effect desired and succeeded only in alienating many of its friends.

Declaring that ' "Andrew Jackson would never recharter that monster of corruption; that sooner than live in a country where such a power prevailed he would seek an asylum in the wilds of Arabia," '[13] the President in 1836 allowed the charter of the Bank to expire. The Second Bank of the United States was rechartered as a state bank by the State of Pennsylvania. Renamed the "Bank of the United

[12] *Ibid.*

[13] Quoted by Scroggs, Wm. O.: *Op. cit.*, p. 67.

States," it continued to operate until 1841, when it was forced to liquidate.

The latter part of this second period in the banking history of the country saw revolutionary innovations in the states' methods of regulating the banks. New York is to be credited with leading the advance.[14] Its passage of the Banking Law of 1838, the most important piece of banking legislation in the history of the country up to this time, marked the end of a series of laws that had revolutionized the banking system of the state.

This law of 1838, which is generally held to have initiated the third period in the banking history of the United States, was preceded by three other acts: the Law of 1824, restricting banking privileges to institutions operating as banks and nothing else; the Law of 1827, setting up a code of general regulations for the banks to replace the old system of imposing separate regulations for every bank; and the Law of 1829, providing for the establishment of a safety fund.[15]

These three acts did much to reform the banking system in New York; but two of the most objectionable features of the system, the lack of security offered by banks to holders of their notes and the manner of granting bank charters, they left untouched. Bank charters were granted by the legislature, and securing a bank charter was purely a matter of playing politics. To the "ins" bank charters were juicy plums to be awarded only to henchmen, and to the "outs" they were more un-

[14]See foot note on page 1.
[15]Scroggs, Wm. O.: *Op. cit.*, pp. 31-36.

attainable than spiritual salvation. Corruption and log-rolling characterized the whole system.

> Such a system was regarded as conducive to monopoly, and the "locofoco," or hard money, faction of the Democrats for some years had made an issue of it and had pledged themselves to break it up.[16]

In 1838 the Democrats by allying themselves with the Whigs succeeded in passing a law dealing with these two abuses.

By the Law of 1838 ". . . the comptroller was authorized to issue circulating notes to any association organizing itself as a bank and depositing stocks of the United States or of any state, or bonds secured by mortgages on real estate of a certain specific grade."[17] The bill also provided for a free banking system; that is, ". . . one that permits any group of men of good reputation and possessing a moderate amount of capital, to establish a bank.[18] After the enactment of this free banking law, people could secure a charter from state authorities at any time by meeting the requirements of the general law.

Seventeen states followed New York in adopting free banking, and several other states also imitated New York's scheme of protecting note issues. In passing their free banking laws, most of the states, however, failed to include the note security provision; and as a result the country was flooded with "wild cat" and "red dog" notes.

In 1842 Louisiana made the second advance contributed by this period to the banking progress of the country. The Law of 1842 permitted the banks

[16] *Ibid.*, p. 120.
[17] White, Horace: *Op. cit.*, p. 540.
[18] Scroggs, Wm. O.: *Op. cit.*, p. 139.

of Louisiana to issue notes secured by 33 1/3 per cent in specie and 66 2/3 per cent in paper running no longer than 90 days. Unlike New York, Louisiana operated on the principle not of creating the demand, but of supplying the demand. And unlike New York, which, in putting the note issuing power in the hands of the comptroller and requiring as security for the notes state or federal bonds, or good mortgages, had followed the "currency principle," Louisiana used the French "banking principle." The Louisiana Banking Law of 1842 also provided for the protection of depositors. Depositors were given the same security as that accorded to note holders. This principle of protecting the depositors was later copied by every state in the Union and by the national government.

Though by 1860 many of the defects in the state banking systems had been remedied, the currency system was still unsatisfactory.

> Of the 1600 banks in the country only a few issued notes that had more than local acceptability. In the West the situation was still chaotic. There was such a motley array of bank notes that every merchant had need of expert advice to enable him to know what moneys to receive and which to reject. In the larger cities "bank-note detectors" were regularly published to assist every one who handled considerable sums of money in distinguishing good notes from bad.[19]

Counterfeit and altered notes flooded the country; and there were even more notes of banks that did not exist and of banks that had suspended payment.

> The lack of any centralized control over note issues led to wide fluctuations in the quantity as well

[19] *Ibid.*, p. 160.

> as the quality of the circulation. In times of prosperity the banks were easily tempted to undue expansion, thereby stimulating an unhealthy boom. Then, when reaction came, the sharp contraction resorted to by the banks tended to accentuate the depression. Thus a note circulation of $215,000,000 in 1857 was reduced to $155,000,000 in 1858.[20]

The fourth period in the history of banking in this country begins with the government's attempts to eliminate these abuses and to stimulate the demand for government securities by enacting the National Banking Act of 1863. The Act was revised and re-enacted in 1864.

> In this shape it differed in a number of particulars from what it now is, after many subsequent amendments. The minimum capital was $50,000 in places of less than 6,000 inhabitants, with an ascending scale for larger cities. This was later reduced to $25,000 for places of 3,000 inhabitants or less. Each bank at first was required to deposit United States bonds bearing not less than 5 per cent interest, to an amount of a third of its capital, and in no case less than $30,000, as security for its circulation. The bank then might issue notes up to 90 per cent of the value of the bonds, but the total issues might not exceed its capital.[21]

In 1865 this Act was supplemented by a law levying the prohibitive tax of 10 per cent upon all state bank notes. State banks fiercely opposed this measure, for its passage meant the stoppage of the immense flow of wealth that was accruing to them through their issues of inflated currency; but after the enactment of the law, there were few which did not hasten to join the national banking system.

[20] *Ibid.*, p. 164.
[21] *Ibid.*, p. 199.

The national banking system did not create the market for government securities that it had been expected to, but it did standardize the currency.

Within eight months of the passage of the act taxing state bank notes, 731 state banks joined the national banking system. By 1867 the banks had circulated $300,000,000 of notes, the maximum fixed by the National Banking Act; and in 1870 the demand for notes had become so great that the government, to relieve the scarcity of the circulating medium occasioned by the withdrawal from circulation of state bank notes, raised the maximum to $354,000,000. By 1873, $341,000,000 were in circulation, and the maximum would have been issued had it not been for the distribution regulation.[22]

From 1873 to 1890 the amount of notes in circulation actually decreased more than $200,000,000. In 1875 the government, with the intent to increase the amount of notes in circulation, passed a law abolishing the maximum on note issues and the distribution and apportionment regulations, and providing for the annual redemption of greenbacks to the amount of 80 per cent of the annual increase in the amount of national bank notes. However, instead of increasing, the currency decreased. This decrease was two-fold. There was, first, the decrease occasioned by the rise in price of government bonds; and there was, second, the decrease caused by the withdrawal from circulation of the greenbacks. From 1875 to 1878, $43,000,000 in new national bank notes were issued. In accordance with the

[22] *Report of the Monetary Commission of the Indianapolis Convention*, 1898, p. 206.

terms of The Act of 1875 ". . . an amount of legal tenders equal to 80 per cent of the $43,000,000 of new national bank notes or $36,400,000 had been withdrawn."[23] At the same time the banks withdrew $74,000,000 of old notes. The net result was that a total of $67,400,000 of the currency was withdrawn. In 1878 the government ceased the retiring of greenbacks.

In the years that followed the enactment of the Act of 1875, up to the end of the fourth period, the government continued to legislate upon the currency; but its work was little more than an elaboration of the principles laid down in the acts of 1863, '65 and '75. The prime motive in framing these laws had been to establish a sound currency. In this object, they both succeeded and failed. For, though standardized, the currency was rigid. One exasperated contemporary of the system described it as being "stiff as a ram's horn and almost as crooked." Increasing the amount of currency was a virtual impossibility, for any increase in the amount of notes in circulation meant a corresponding increase in the price of bonds, which in turn meant a loss to the banks. Not unnaturally the banks resisted any attempt to increase note issues, and this in the face of the greatest demand for a medium of exchange in the history of the country.

A new era had begun in America, an era of growth and expansion. Always an agricultural country, the United States was in the process of becoming the most industrialized nation in the world. Agriculture was being revolutionized, railroads were check-

[23] *Ibid.*, p. 208.

erboarding the country, and towns were springing up like mushrooms.

The demand for a medium of exchange at such a time was of course very great. The amount of legal money was insufficient to meet this demand, and it was to supply it that banking credit, the "banking riddle," received its greatest development. Though from 1867 to 1898 the amount of currency increased from $709,000,000 to $1,210,000,000, an increase of less than 40 per cent, loans and discounts increased more than 300 per cent. And in 1899 John Jay Knox estimated that between 90 and 92 per cent of the business of the country was carried on by means of checks or other means of credit.[24]

During this period, too, began the concentration of funds in the large city banks. The law permitted banks to keep three-fifths of their reserves on deposit in reserve city banks. The purpose of this provision was to enable small banks to have a clearing house for checks drawn upon each other. But in time certain city banks started the practice of paying a small rate of interest on such deposits.

> In 1911 much less than one-half (246.3 millions) the total reserves (551.7 millions) was in the actual possession of the country banks.[25]

Funds in addition to reserves were also deposited by the small banks during dull times—to get interest, small though it was. Moreover, state banks deposited their reserves in the large city banks; and, since the reserve required of state banks was generally smaller than that of national banks, it is probable that state

[24]Knox, John Jay: *A History of Banking in the United States*, p. 205.
[25]Laughlin, J. L.: *Banking Reform*, p. 200.

banks sent in even larger amounts than did the national ones.

> It was necessary for city banks to find employment for sums thus deposited with them by other banks. This could only be done during the dull season when the country deposits were at their height, by stimulating borrowers through the offer of unusually low interest. And, inasmuch as the deposits were always subject to demand, they could similarly be loaned only on call, it being seldom that large sums of money could be used in legitimate business operations subject to call. The outcome of the practice was the stimulation of loans to the stock market and of speculative dealings of all sorts.[26]

In 1911 the amount of deposits from small banks in large city banks was in excess of $1,500,000,000, of which $432,000,000 were in New York alone.[27]

In addition to the concentration of funds, there was a centralization of power in the big banks. The commonest means of obtaining this power was the rediscount system. Other means were the holding companies, organized under state laws; consolidations, to increase capital; and chain banking—all of which practices were a serious menace to the financial security of the country.[28]

However, in spite of repeated warnings by economists, people did not appreciate the gravity of the situation until the panic of 1907. This depression, though brief, was severe enough to awaken even Congress; and that body set up a National Monetary Commission to study and report on the various banking systems of the world. The findings of this

[26] *Report of the Monetary Commission of the Indianapolis Convention*, 1898, p. 213.
[27] Laughlin, J. L.: *Op. cit.*, p. 201.
[28] *Ibid:* pp. 204-206.

Commission were used as a basis for the organization of the Federal Reserve System in 1913, the year in which the fifth period of American banking may be said to begin.

To solve the problem of the congestion of funds, twelve regional banks were set up. Elasticity of the currency was secured by the Federal Reserve System through its issue of federal reserve notes backed by gold and commercial paper. And to assure a centralized control of credit, the Federal Reserve Board was given the power arbitrarily to set the rediscount rate and engage in open market operations.

This bill was not designed to destroy the national banks nor to force control over the state banks. And, though the national banks were required to take stock in the system to the amount of 6 per cent[29] of their capital, they were compensated by a reduction in the reserve requirements and a rediscount market free from obligations. State banks might, as they pleased, join the system or remain out of it; and the requirements made of the state banks that joined the system were the same as those imposed upon national banks.

Later even more generous concessions were made to the state banks to induce them to join the system. One of the earliest objections of the state banks was that most of their paper was ineligible to meet the requirements of the Federal Reserve System; this objection was quieted when the Board volunteered its services to assist the banks in making the minor changes in their paper necessary to make it eligible for rediscount. In 1917 the original Act was

[29]Only 3 per cent was actually paid.

amended to make it possible for state banks to withdraw from the system after giving a six months written notice.[30] And in 1927 the McFadden Act provided that member banks could invest "savings deposits on city mortgages for as long as five years."[31]

These concessive laws had relatively little effect, though; for by 1931 there were only 982 state bank members.[32] Considering the fact that in 1931 there were 15, 987 state banks, it is evident that a large proportion of the banking of the country was beyond the control of the Federal Reserve System.

The next important national banking legislation came in 1931 with the passage of the Glass-Steagall Bill. This bill provided for the freeing of the gold by lowering the standards of eligible paper; and it permitted national banks to issue additional bank notes by making 3 billions of government bonds eligible as reserves against note issues.[33]

[30]Reed, Harold L.: *The Federal Reserve Policy*, p. 66.
[31]Preston, H. H.: "The McFadden Act," *American Economic Review*, June, 1927, pp. 201-218.
[32]National Industrial Conference Board: *The Banking Situation in the United States*, p. 67.
[33]*Federal Reserve Bulletin*, Aug., 1931, p. 478.

CHAPTER II.

FINANCIAL HISTORY OF LOUISIANA BEFORE 1818

THE banking history of Louisiana begins in 1804 with the establishment of the Louisiana Bank a few months after the Louisiana Purchase. The financial history of Louisiana, however, goes back to the very beginnings of the territory. The story of Louisiana's struggles with the money problem is a fascinating one, but the limits of the present treatise do not admit of its being told here. Here it is sufficient briefly to mention some of the expedients employed by the colonists in dealing with the money situation, and to say that ". . .Louisiana, during its colonial days, seems to have served as somewhat of a laboratory in which a number of theories and systems of money and exchange were experimented with."[1]

What were these theories and systems? To discover this, it is necessary to go back a century before the establishment of the Louisiana Bank, to go back, indeed, to the days when barter was the commonest and, in many cases, the only form of exchange. Up until 1703 barter was practically the only form of exchange, if we except "semi-barter" (by which is meant a system in which commodities are a standard of value; as, for example, bears' oil, tobacco, and corn).

[1]Chambers, H. E.: *History of Louisiana*, Vol. I, p. 161.

"Bills of credit," first issued by the colonial governor Iberville, were the first paper currency in Louisiana. These bills of credit were very similar to our modern checks. They were issued until 1722, though their purchasing power had declined long before they were called in, to be redeemed with copper coins. When they were called in, it was on such short notice that many people in outlying districts were not advised of the date in time to get their money. The supply of copper in the colonial treasury was not sufficient to redeem all the bills of credit; and after the copper supply was exhausted, the treasury issued new notes to redeem the old bills of credit.[2]

Another kind of currency was issued by the home government on March 9, 1717 and sent to New France and Louisiana. In 1719, 25,000,000 *livres* in numbered bank notes bearing the corporate seal were issued in New France and Louisiana by the Company of the Indies.

> In order that such notes should be paid to no one but himself, the holder, on receipt, was to sign them, and in case of loss immediately to notify the company. If not recovered by the end of five years, the company *(sic)* pledged itself to pay to the holder the full value.
>
> On October 27, 1727 the colonial officials informed the home government that 26,800 *livres* in treasury notes *(billets de caisse)* had been put into circulation by the *ordinateur* . . . The shortage in bills of exchange and copper money made it necessary for the agents, in order to meet the obligations of the Company, to put into circulation 50,000 *livres* in treasury notes for each of the years 1728 and 1729 . . . From 1729-31 the Company sent merchandise to the colony

[2]*Ibid.*, p. 156.

> and managed through its sale to retire a great many of the notes at a reduction of 50 per cent on the face value.[3]

In 1731 the Company liquidated.

Though some silver was used as currency even before Iberville's bills of exchange, the quantity and circulation were very small.[4] Louisiana had no silver mines, and for her supply of that metal was forced to depend upon importations from other countries. The natural result was, of course, that silver was hoarded and exported and the less valuable currency was used as the exchange medium.

> The rapidity with which it disappeared upon arriving was at times surprising. It seemed to go back to France quicker than it came, the recipients preferring to purchase from the mother country rather than from the colonial commissary as giving them a wider choice.[5]

By 1718 the colony's demands for more specie had become so pressing that a copper coinage was struck "for the use of the King's colonies in America, and ordered to be used in the payment of troops. It was declared a lawful tender in the company stores."[6] Copper coins were no more satisfactory a currency, though, than other forms of money which had no acceptability in the mother country. "Copper coins are so depreciated here that no one wants them,"[7] said one contemporary of the system. In 1726 copper was made legal tender in France, and it was not long

[3]Surrey, N. M. Miller: *The Commerce of Louisiana during the French Regime,* p. 117.
[4]Chambers, H. E.: *Op. cit.,* p. 158.
[5]*Ibid.*
[6]Martin, F. X.: *History of Louisiana,* p. 148.
[7]"Minutes of the Superior Council of Louisiana," quoted in *Mississippi Provincial Archives,* Vol. II, p. 307.

after this that copper coin began to leave the colony just as silver had before. "Very little copper remained in the colony, because the crews of the vessels carried it away."[8]

In 1732, when the King of France put Louisiana upon a specie basis, practically all of the small amount of coin still remaining in the colony vanished. Before the end of the year coin had become so scarce that the governor and the *ordinateur* were forced to issue bills of exchange to move the tobacco crop; and the King issued card money which became known as the "King's money."[9] During the '30's the currency was greatly inflated, principally in order to supply the military; and by 1739 it was practically valueless.

From 1739 to 1763 the currency situation was unsatisfactory. Paper money continued to be used —every new issue being used to redeem the former. And the system was made even more intolerable by counterfeiting, dishonest *ordinateurs*, and *agiotage*,[10] which developed to the point almost of professionalism.

By 1763, the date of Spain's acquisition of Louisiana, 7,000,000 *livres* of the French paper currency were in circulation. Spain accepted France's valuation on the money of one-fourth the nominal value and redeemed it with "libranzas." The currency situation was considerably improved by the importation of silver, which Spanish trade made possible.

The period of Spanish rule in Louisiana was a prosperous one for the port of New Orleans. With

[8] *Ibid.*, p. 501.
[9] Surrey, N. M. Miller: *Op. cit.*, p. 124.
[10] The buying and selling of money.

the increase in the population of Louisiana and the development that the eastern part of the Mississippi Valley was undergoing in the hands of the Union, trade and commerce through the port increased greatly. In 1798 the commerce stimulated by the Napoleonic wars and by the improvements made in river navigation was almost doubled, and by the time Louisiana was ceded to the United States, the annual commerce through the port of New Orleans was valued at more than $4,000,000.[11]

On October 1, 1800, Spain retroceded Louisiana to France. April 30, 1803, France sold Louisiana to the United States. December 20, 1803, W. C. C. Claiborne took over the governorship of the territory on behalf of the United States. Governor Claiborne found a very disordered and discontented population. The population of New Orleans and its vicinity was, in the main, composed of three nationalities, immigrants from the United States, Spanish, and French; and all of them were hostile to one another. The Spanish were perhaps the most irreconcilable. To the peoples' natural grievance at seeing another country supplant their own in the control of the colony were added the complaints of the priests at seeing their life's work undone by the territory's passing into Protestant hands. And the military bewailed the loss of its power and prestige. All the Spanish elements were goaded by officials of the home government to end their troubles by setting up an independent "Western Empire."[12]

[11] "Internal Commerce of the United States," *Report of the United States Treasury Department*, 1888, p. 185.

[12] Gayarré, Charles: *History of Louisiana*, Vol. IV, Chapter I.

The French were only slightly less insubordinate than the Spanish. For forty years they had chafed under Spanish arrogance; and then, only twenty days after being told that they were rid of the Spanish scourge, they were afflicted with a new rule as repugnant as the former. Of the discontent of the French, Laussat, the colonial prefect, said:

> Louisianians have seen themselves, with much regret, rejected for the second time from the bosom of their mother country . . . But hardly had the agents of that government taken the reins, when they accumulated errors on errors and blunders on blunders . . . If our government should ever look back to this country, it should be, in my opinion, with a view of entirely detaching the western states from the rest of the confederacy. Such a scheme, far from being extravagant, would have, on the contrary, innumerable chances of success. Time alone will one day bring on this scission.[13]

It is easy to dismiss this dictum of Laussat's as merely the personal spleen of a thwarted man, but it would be a mistake to do so. There had been "errors" and "blunders" on the part of the United States Government. Perhaps the greatest error (though it is possible perhaps to justify it on the grounds of expediency) was that of giving to the governor a power final and despotic. He ". . . was to wield those extraordinary powers in maintaining and enforcing the laws and municipal regulations of Spain, which were to remain in vigor until modified by the Government of the United States and of which he was entirely ignorant."[14] Of a piece with this error, and calculated to set the peoples' teeth

[13]Laussat: "Dispatch to France," quoted in Gayarré, Charles: *Op. cit.*, pp. 7-14.
[14]*Ibid.*, p. 2.

further on edge was the arrogance of the Union military, which flaunted itself in the peoples' faces on every possible occasion.

Another source of great discontent was the sorry condition of the currency.

> Nothing is more apt to produce discontent in any community than the want of a circulating medium; and when discontent exists from any other source, nothing is more powerful in contributing to bring it to its climax than this very cause. So it was in Louisiana at that time. The distress in the province had become very great from the scarcity of money. The flow of silver from Vera Cruz which was so refreshing under the Spanish government, had ceased with the change of dominion, and Spain showed no prompt disposition to redeem a large quantity of paper which she had set afloat, in the late colony under the name of libranzas, and which had fallen into considerable depreciation.[15]

This unhappy condition of the currency offered Governor Claiborne a great opportunity, and he was not long in taking advantage of it. Complaints about the currency were perhaps the single, certainly the greatest, point of dissatisfaction upon which all three elements of the population were agreed. To remove this complaint would be to remove many other grievances, both real and fancied. On March 12, 1804, therefore, Governor Claiborne gave his permission for the establishment of the Louisiana Bank, the charter of which provided "that a bank may be established in the City of New Orleans, Capital Stock whereof shall not at present exceed $600,000. . . And be it further ordained, that whenever the Directors shall deem it expedient, they may

[15] *Ibid.*, p. 15.

increase the Capital Stock of the said Corporation to two millions of Dollars. . . And be it further ordained that this ordinance shall continue in force for a period not exceeding sixteen years."[16] A list of the stockholders of this bank shows that the bank was owned by the most influential men in all three population groups.

Fearing that he had exceeded his powers, and that his government would not approve his having established a bank to exist for a long period, Claiborne, on March 16, forwarded to Secretary Madison a copy of the charter, to which he attached an explanation of his action:

> I enclose you a copy of three ordinances which I lately passed, one of which contains a Charter for a Bank. The Establishment of a Bank in this City was much wished for by the inhabitants, and I believe will prove of great utility, but I must confess I should not have ventured upon the measure from these considerations alone. I discovered that efforts were being made to render the people discontented with the present state of things, and to impress them with an opinion that their interests were not attended to by Congress, and that Louisiana had gained nothing by the late change.
>
> I thought that these efforts were likely to prove successful, and that the best means of speedily allaying discontent was the Passing on my part of some popular ordinance. The project of a Bank presented itself, and the measure received my sanction from the best of motives, the subscriptions were opened on this day, and I am told near one hundred thousand dollars was subscribed in a few hours. The Establishment is a novelty here and very pleasing to the people. I was

[16] "Ordinance Providing for the Establishment of a Bank," quoted from *The Official Letter Books of W. C. C. Claiborne*, compiled by Rowland, Dunbar, Vol. II, pp. 29-34.

> unwilling to do anything which would require permanency and thus commit the government. In granting a charter, therefore, I yielded reluctantly to existing circumstances—but I trust the measure will be viewed as perfectly justifiable on the ground of Political expediency, and that my conduct in this particular will meet the President's approbation.[17]

This letter to Madison was answered by Secretary of the Treasury Gallatin. Contained in the reply, which Claiborne received May 22, was the news of Congress' having authorized the establishment in New Orleans of a branch of the First Bank of the United States. Also contained was an order that Claiborne revoke the charter of the Bank of Louisiana. This the Governor was unwilling to do, and he answered Gallatin by further explaining the reasons for his having chartered the Bank, and by saying that he would await the President's instructions.[18] Claiborne then took the matter up directly with President Jefferson, who sustained him in his refusal to revoke the charter.

Both the Bank of Louisiana and the branch of the First Bank of the United States were opened in January, 1805. The Bank of Louisiana was not very successful financially, though its capital was later increased to $2,000,000. Of its success as a political expedient, however, there can be no question. It succeeded admirably in its object of pacifying the inhabitants. Had Claiborne not taken this step to allay the dissatisfaction of the colonists, it is quite probable that the inhabitants of Louisiana would have revolted to form the much talked-of

[17] "Letter to James Madison," *Ibid.*, pp. 41-42.
[18] "Letter to Albert Gallatin," *Ibid.*, p. 163.

"Western Empire" under the leadership of Aaron Burr. The bank continued to operate until 1819, at which time it was forced to liquidate.

Though agriculture made reasonable progress during the next half a dozen years, there was little increase in the amount of trade passing through New Orleans. During this time, the Louisiana Bank and the branch of the First Bank of the United States fully met the financial needs of the community. However, when it was realized that the First Bank of the United States would not be rechartered, business men in New Orleans and throughout the country began to lay plans for the organization of new state banks.

On January 29, 1811, in a message before a joint session of the legislature, Claiborne had this to say of the banking situation:

> I have noticed, gentlemen, a solicitude on the part of many respectable citizens for a third bank in this city. If indeed such an institution promises advantages to commerce and to agriculture, I shall be happy to approve an act of incorporation.[19]

Evidently Governor Claiborne came to see some advantages promised by such an institution, for in 1811 the Bank of Orleans and the Planters' Bank were established, the former with a capitalization of $5,000,000. After 1811 these two banks and the old Louisiana Bank were the only banking institutions in Louisiana until 1817, at which time a branch of the Second Bank of the United States was established there.[20]

[19] "Speech before a Joint session of the Legislature," *Ibid.*, Vol. V, pp. 124-125.
[20] Rightor, Henry: *History of New Orleans*, p. 585.

The advent of the first steamboat into the New Orleans port in 1811 marked the beginning of a temporary spurt in river transportation. However, the Fulton-Livingston monopoly, granted by the State of Louisiana, checked the expected increase until 1815, at which time the Supreme Court of the United States decided that neither a state nor Congress could prevent free transportation on the Mississippi River. This decision set in motion what has been generally recognized as a golden period of commerce at New Orleans.

CHAPTER III

NEW ORLEANS FROM 1821 TO 1860

> New Orleans will forever be, as it is now, the mighty mart of the merchandise brought from more than a thousand rivers, unless prevented by some accident in human affairs. This rapidly increasing city will in no distant time leave the emporia of the eastern world far behind. With Boston, Baltimore, New York, and Philadelphia on the left, Mexico on the right, Havana in front, and the immense valley of the Mississippi in the rear, no such position for the accumulation and perpetuity of wealth and power ever existed.—Thomas Jefferson.

BY 1821 the "golden period of commerce" in New Orleans was well under way. The almost magic power and glamor of the period defy description; but if we look only at statistics of the time, comparing in dull numbers New Orleans and her only new-world rival, New York, we can get a fair idea of the city's development. The following table gives the exports and imports of New York and New Orleans from 1821 to 1860:[1]

Imports and Exports of New York and New Orleans from 1821 to 1860 (000 omitted)

	New York		New Orleans	
	Exports	Imports	Exports	Imports
1821	13,162	23,629	7,272	3,397
1822	17,100	35,445	7,978	3,817
1823	19,038	29,421	7,779	4,283
1824	22,897	36,113	7,928	4,530
1825	35,259	49,639	12,582	4,290

[1]U. S. Treasury reports of the years listed.

	New York		New Orleans	
	Exports	Imports	Exports	Imports
1826	21,947	78,115	10,284	4,167
1827	23,834	38,119	11,728	4,531
1828	22,777	41,297	11,947	6,212
1829	20,118	34,743	12,386	6,857
1830	19,697	35,624	15,486	7,599
1831	25,535	57,077	16,761	9,760
1832	26,000	53,214	16,530	8,871
1833	25,395	55,918	18,941	9,590
1834	25,512	73,188	26,567	13,781
1835	30,343	88,119	26,297	17,519
1836	28,920	118,250	37,199	15,117
1837	27,338	79,301	35,338	14,029
1838	23,008	68,453	31,502	9,496
1839	33,268	99,882	33,184	12,864
1840	34,267	60,440	34,136	10,677
1841	33,139	75,713	34,387	10,256
1842	27,576	55,875	28,408	8,033
1843	33,443	31,350	26,653	8,170
1844	32,861	65,079	30,476	7,826
1845	36,175	70,907	27,157	9,354
1850			38,105	10,760
1855			55,400	12,925
1859	104,720	229,181	101,634	18,349

Moreover, the banking capital of New Orleans from 1835 to 1842 exceeded that of New York; and it was a fairly common belief that New Orleans was the richest city in America. No wonder that a contemporary of the period, looking at these figures, was moved to rhapsodize:

> . . . the eye instinctively rests on two points whose positions are so commanding that it requires but little prophecy to determine that they must be far greater than Alexandria, Tyre, or even London. These two points are New York and New Orleans. The latter is the only city in America that can run a close race

with New York, and the ratio of its past increase is such that it bids fair to be the empire city of America.[2]

In the light of the extravagant predictions made for her destiny, the disparity in the relative importance of the New Orleans of early statehood days and the New Orleans of today is little short of incredible. How did it happen that New Orleans failed even to approach the limits set for her? Should her failure be ascribed to her own lack of enterprise and initiative, or were the prophecies themselves groundless and, so, incapable of fulfillment?

Undoubtedly New Orleans stands indicted for lack of vision and aggressiveness. Dowered by Providence with one of the greatest natural commercial highways in the world and the only outlet from the Northwest, the city grew and prospered—but not because of her own efforts. That any one might devise a better mode of transportation than the natural one of the river, did not occur to her; and when the city finally awoke to the fact that the East had wrested from her the commercial supremacy of the Northwest, it was too late: First in the field, the East had built too solidly in the Northwest for New Orleans seriously to challenge it. And the Civil War caused a fatal halt in New Orleans' belated efforts to repair the damage by tapping the commerce of the Southwest.

What had New Orleans done, or, better, what had she not done that caused her to lose out on the commerce of her natural trade territory? The answer to this question lies in an explanation of the fact

[2]"Albany Argus," quoted in *Hunt's Merchants' Mag.* V. XIII, p. 50.

that New Orleans was an export city. From 1821, over a period of forty years, while her exports were increasing some 1500 per cent, her imports advanced only 600 per cent. At the beginning of the period, of course, boats were not powered to go up the Mississippi; and those boats that came down the river were wrecked at New Orleans (and the pecksawed lumber sold for more than the cost of the boat). In such a system, accordingly, imports into the interior by way of the river were out of the question; but even after the advent of the steamboat, imports increased but slightly and were restricted to supplies for New Orleans and the immediate vicinity. Before, boats had been junked after landing their cargoes at New Orleans; now, they simply returned up the river empty.[3]

In failing to take advantage of the opportunities for building up an import trade, therefore, New Orleans lost possibly her greatest opportunity to become, if not the emporium of the West, at least much larger than she did. Not only could New Orleans have taken toll from a system of imports into the interior, she could also have increased her exports. For with imports she could have built up a system of exchange with the Northwest, taking to the Northwest, as the East was doing, finished goods and exchanging them for that part of the produce that she did not buy outright. If river transportation was inadequate to take care of this traffic, it remained either to improve the navigation of the Mississippi or to establish overland means of shipment. Until it was too late, she did neither.

[3]*Internal Commerce of the United States*, 1888, p. 252.

Improvement of navigation on the Mississippi was neglected until 1829. In that year Congress inaugurated under Captain Shreve the snag-boat system. Previous to that time the boatmen themselves had removed, in their passage downstream, the innumerable logs which obstructed and rendered the navigation of the river dangerous.[4] Captain Shreve's system of snag-boats was very successful, but his success was balanced by his unfortunate efforts to straighten the Mississippi by cutting channels through the bends in the river. He succeeded only in ruining the entrance to the Red, Ouachita, and Atchafalaya rivers.[5]

From 1833 to 1838 the Secretary of the Treasury reported that 40 steamboats had been snagged on the Mississippi and damage inflicted amounting to more than $640,000. This was probably far below the true figures. In the year 1839 the total loss of boats in the river was 40, of which 3 were snagged, 7 struck on rocks and other obstructions, the total loss amounting to $448,000.[6]

Not only was the course of the river hazardous, but, as the ships increased in size, the mouth of the river became more and more an obstruction to passage up to New Orleans. Early efforts to dredge the bottom of the river were not successful, and the obstruction was not fully removed until 1874, when Captain Eads' jetties were erected.

Up until the Civil War, then, the efforts of Louisiana, other states along the Mississippi, and the Federal Government to improve river navigation

[4] *Ibid.*
[5] *Ibid.*, p. 198.
[6] *Ibid.*, p. 198.

were, at best, half-hearted. In Louisiana the expenditures for the improvement of river transportation had cost the state less than one-tenth the amount expended on banks, the Federal Government had spent even less than Louisiana, and the other states, practically nothing except on their own tributaries. And not until 1845, after the railroads began competing with the Mississippi for the commerce of the Northwest, was any organized effort made to improve the Mississippi.

New Orleans' tardiness in providing adequate transportation for the produce of the Northwest very early had the effect of causing her to receive a decreasing proportion of the total amount of raw material shipped out of the Valley. This loss was not realized at once, because the importation of slaves and the improvement in agricultural technique brought an increase in the amount of produce from the vicinity of New Orleans that for a time effectively concealed the relative losses from the valley. None the less, there was a loss; and what New Orleans lost, the East gained. After steamboats came in, the North and the East began the construction of a system of canals that, together with the railroads, by 1850 linked the whole Northwest with Eastern ports.[7] And, because of the cheapness and speed of this method of transportation, the valley came not only to depend upon the East as its source of manufactured products, but also to look to the East as a market for increasingly great amounts of its raw materials.

[7] *Internal Commerce of the United States*, p. 202.

> A farmer on the Ohio, at a point, say Cincinnati, equally or farther distant from New York than New Orleans, can transport his produce to New York and net as much profit as to carry it to New Orleans. In the one case, nature has provided him with a magnificent highway almost before his door, and art has provided ample steamers ready to carry it to New Orleans; and yet, most perversely, he goes up the Ohio to Portsmouth; traverses a canal of three hundred miles by slow marches; comes to Lake Erie, unships his produce, and bears it 150 miles, on a boisterous lake, to Buffalo; unships it again, to a boat on the grand canal, and then toils along 360 miles, through a river 4 feet deep and 40 feet wide, to the Hudson; and then, after one more shipment, he floats it down to its destination, the New York market. All this can be done, and with as much profit to the producer, as to float it down a single river to New Orleans.[8]

Even if New Orleans had seen in time the necessity for insuring her commercial future by the improvement of river navigation and the establishment of a system of railroads, after 1837 it is doubtful that she could have, with her existing banking facilities, financed the undertakings. In 1837 the banking system of New Orleans collapsed, and five years intervened before New Orleans' notes ceased to be heavily discounted. In 1837, the first year of the depression, all southern money was "at a discount of from 5 to 25 per cent., and most of it from 10 to 20."[9]

Since it was with these notes that New Orleans paid the Northwest for its produce—there being no commodity exchange—the Northwest naturally pre-

[8] "Albany Argus," quoted in *Hunt's Merchants' Mag.*, Vol. XIII, p. 51.
[9] *Niles Register*, 1837, Vol. 52, p. 147.

ferred to trade with the East. From the East it received either goods in exchange for its produce or currency undiscounted. It increased its trade with the East during these five years at a rate faster even than it had before, and New Orleans was never able to regain what she lost.

It is interesting to note the attitude of New Orleans at this time. Even then economists did not see what was happening to New Orleans. Said one staid critic:

> It is certain that the trade through the canals, as well as by other similar ones that may be opened hereafter, is destined to increase in a great degree, and all this increase both as to produce sent and supplies received by those routes is, without doubt, at the expense of New Orleans; still, however, all this will not prevent the trade of this city from increasing in a most rapid ratio. The Mississippi and its tributaries are the *natural*—the others are the *artificial*—channels of the commerce of the West.[10]

But the currency problem was not the only financial impediment to New Orleans' development. There was also the matter of securities. In 1837 some $17,000,000 in bank bonds secured by the state were outstanding. Though interest payment on these bonds had been guaranteed by the state, no provision for the payment of interest had been made other than from the profits of the banks. In 1837 in New Orleans the banks ceased to make a profit, and the bonds were soon in default. Moreover, $7,000,000 of New Orleans' securities were defaulted.[11] From 1838 to 1843 Louisiana "sixes" were quoted in London at from 95 to 96½, and

[10] *De Bow's Review*, Vol. II, 1846, pp. 58-59.
[11] *Ibid.*, Vol. X, 1850, p. 77.

from 1845 to 1852, at 90, though Ohio "sixes" were quoted at 101.[12] In order for the state to meet the interest on the bank bonds, it would have had to take over the banks. This was not done until 1842.

The taxpayers' response to the legislature's decision to have the state take over the banks was loud and definite. In 1845 it was made unconstitutional for the legislature either to charter more banks or to finance any corporations. From that time on, even if there had been any great sentiment in the city and throughout the state for improving navigation and laying down railroads, it would in all probability have been impossible to finance the projects. The state had no credit abroad. Under the new banking system, banks were unable to finance such projects. Later, when the necessity for these improvements became generally recognized, the wealthy classes were unwilling to finance them, and the others were unable.[13] And though by the middle fifties it might have been possible to finance the improvements, by that time it was too late to recapture the trade of the Northwest.

By 1850 conditions had become too clear even for New Orleans to ignore them. It was clear not only that the trade of the Northwest was definitely lost to her, but also—and this was even worse—that she was losing out to other southern cities. In 1850 New Orleans lost 12½ per cent of her cotton crop.

Charleston and Savannah together had gained 12.8 per cent. This was owing to the opening of the

[12]Raguet, Condy: *Currency and Banking*, p. 306.
[13]*De Bow's Review*, Vol. XI, 1851, p. 77.

Western and Atlantic Railroad between Chattanooga and the two coast cities.[14]

New Orleans began to listen to the economists, even to believe them when they told her that if she was to become a great commercial mart, "only railroads could make her so."[15] It should be noted, though, that, so late as 1850, the railroads were still conceived of as having utility only as feeders for the river. Said the resolutions of a committee formed to draw up a program for the city:

> "What then must be done for New Orleans? She must, by a wise and liberal stroke of policy, regain a part, if not the whole, of the trade she has supinely lost, and open new sources of opulence and power which are abundant all around her. She can do this by changing and modifying her laws bearing unequally and hardly upon capital and enterprise; by cheapening her system of government; by affording greater facilities and presenting less restrictions to commerce; by establishing manufactures, opening steamship lines to Europe, and conducting a foreign import trade; and, finally, and what is of first importance and should precede every effort by munificent appropriations to railroads branching the West, and the North, and the East, from a terminus at her center or from termini on such interior streams and rivers as are necessarily tributary to her. Now is the accepted time. Tomorrow will be too late.[16]

By the time of the Civil War the utility of the railroads was generally recognized throughout the South. By that time a number of short roads had been constructed. Commerce through the port of New Orleans had more than doubled since 1852, and

[14]Rightor, Henry: *Op. cit.*, p. 300.
[15]*De Bow's Review*, Vol. XI, 1851, p. 327.
[16]*Ibid.*

there was even talk of opening up a new commercial field by laying a road into the Southwest.

> It was all plain as day to southern statesmen, but no effort of will and imagination could overcome the flow of fortune. The economic basis was being laid for a new partisan adjustment—and in 1860 spinning fates wrought the patterns.[17]

[17]Beard, C. A. and M. R.: *The Rise of American Civilization*, p. 640.

CHAPTER IV

WILD BANKING (1818-1837)

1. THE LOUISIANA STATE BANK

> In 1818 . . . when the Louisiana Bank was on its last legs and preparing for liquidation, . . . the Louisiana State Bank was established on far greater foundations than anything that had ever been seen before in New Orleans.[1]

THE old Louisiana Bank was given five years in which to liquidate, and the stockholders were assured of the return of all but 11 or 12 per cent of their investment.

The Louisiana State Bank was capitalized at $2,000,000; the number of directors, of which the State was to appoint 6, was fixed at 18. These directors were to be elected as soon as 5,000 shares, exclusive of state subscriptions, were subscribed.

Five branches, "offices of discount," were also established. Of the capital stock $100,000 was reserved for the branch at Donaldsonville, $200,000, for that at St. Francisville, and $150,000 for each of the branches at Alexandria and St. Martinsville. No stock subscriptions were reserved for the branch at Baton Rouge. In 1825 a supplementary law was passed permitting the discontinuation of all the branches except the one at St. Martinsville.

This bank was to be free of all state and local taxes. It was, however, required to pay the state a

[1]Rightor, Henry: *Op. cit.*, p. 585.

bonus of $100,000, $10,000 for each of ten years. A supplementary law in 1819 permitted the bank to pay $5,000 annually instead of $10,000; in 1820 the law was again changed to permit the payment of $2,000 a year for four years, after which an annual payment of $10,000 was required.

Stockholders were made liable only to the amount of their stock. The stock was to be paid for by paying one-fifth at the time of subscription, two-fifths after the opening of the bank, and the remaining two-fifths on demand of the directors.

Notes were made "obligatory on the part of the said bank, and any of the said notes payable to order . . . transferable and negotiable by endorsement." And those "payable to the bearer" were made "negotiable and transferable by a mere delivery."[2]

The Louisiana State Bank was very successful. It weathered the storm of 1837 and afterwards established branches at Baton Rouge and Shreveport. It went through the Civil War. In 1867 it reduced its capital to $600,000, and in 1870 it was converted into the State National Bank.[3]

2. The Bank of Louisiana

April 7, 1824, the Bank of Louisiana was chartered. At the same time were established five offices of discount and deposit, "to wit; one at Donaldsonville, for the parishes of St. James, Ascension, Assumption, Lafourche Interior, and Terrebonne, and Iberville, with a capital of $200,000; one

[2]Louisiana Law of 1818, Section 13.
[3]Trufant, S. A.: *Review of Banking in New Orleans*, 1830-1840, p. 13.

at St. Francisville, for the parishes of East and West Feliciana and Pointe Coupee, with a capital of $200,000; one at St. Martinsville, for the parishes of St. Mary, St. Martin, Lafayette, and St. Landry, with a capital of $200,000; one at the town of Alexandria, for the parishes of Rapides, Avoyelles, Catahoula, Concordia, Ouachita, and Natchitoches, with a capital of $200,000; and one at Baton Rouge, for the parishes of East and West Baton Rouge, Washington, St. Helena, and St. Tammany, with a capital of $200,000."[4]

The state was more than generous in its concessions to the Bank of Louisiana and subscribed half of the stock. The charter provided for the establishment of a bank of the State of Louisiana "with a capital of four millions of dollars . . . 20,000 shares amounting to two millions of dollars . . . shall be subscribed and paid for by the State of Louisiana."[5] Section 4 of the act provided that the "treasurer of the state shall subscribe . . . the said number of 20,000 shares amounting to two millions of dollars . . . to be paid in the manner following, to wit; "the treasurer of the state shall deliver to the directors of the bank bonds . . . payable by the state to the order of the president, directors, and company of the bank, which shall bear an interest of 5 per cent per annum payable half-yearly, and shall be delivered at the rate of $100 in bonds for every eighty-three dollars and one-third of a dollar of stock." Bonds amounting to $2,400,000 were issued as follows: $600,000 to run for 10 years; $600,000, for 15 years; $600,000, for 20 years; and $600,000, for 25

[4]Louisiana Law of 1824, Section 2.
[5]*Ibid.*, Section 5.

years. These bonds were not expected to bring their par value, but it was known that they would bring more than 83 1/3. It was, therefore, provided that any amount over $2,000,000 secured for the bonds would go to the bank as a profit to be divided as dividends to the stockholders.[6]

Even this gift was not large enough to satisfy the stockholders and they, immediately proceeded to divide the profits amounting to $321,822 on the basis of stock subscriptions and not on the basis of paid-in stock. Since stockholders were required to pay only one-fifth of their subscriptions at the time of the opening of the bank, the amount to be paid in by the time of the opening of the bank amounted only to $400,000, of which $138,840 was actually paid in.[7] This method of dividing the profits would, therefore, have given the individual stockholders a dividend of $160,411, or a profit of 115 per cent on their paid-in investment. The state naturally objected to this scheme and carried the matter to the courts, where it secured a decision requiring the profits to be divided according to the amount of paid-in stock.[8] This decision saved the state a little more than $140,000. Even so, the stockholders gained a profit of some 14 per cent on their investment.

Like the State Bank of Louisiana before it, the Bank of Louisiana was "exempt from taxation by the state or by any parish or body politic under the authority of the state for the whole term of its charter."[9] Another largess of the state was that

[6] *Ibid.*
[7] Louisiana v. *Bank of Louisiana*, 6 La. Ann. 645-59.
[8] *Ibid.*
[9] Louisiana Law of 1824, Section 20.

permitting the stockholders to operate the bank three years mainly on the state's money—since the stockholders were given three years in which to pay in their subscriptions.

The bank prospered.

> The Bank of Louisiana shows a handsome exhibit of its condition. It had only $570,322 in circulation, but $420,880 in specie on hand besides the cash in the different offices and other available means making the grand aggregate of $867,038. The bills and notes discounted, or mortgages on interest, amounted to about $3,500,000—capital paid in nearly $4,000,000 —deposits to credit of individuals, $392,355.[10]

3. The Consolidated Association of Planters

In 1827 the Consolidated Association of Planters was chartered with a capital stock of $2,000,000 to be raised by subscription. Mortgages were given on immovable property with values equal to the subscription, and bonds were floated against these mortgages. The bonds were made payable in 5, 10, and 15 year periods. The profits of the bank were to be placed in a sinking fund for the purpose of retiring the bonds and paying interest on them. These bonds, however, could not be sold. To assist the bank, the state in 1828 issued $2,500,000 of its own bonds and took as security mortgage subscriptions to the amount of $3,000,000. The bank gave the state $1,000,000 in bank stock. No dividends were to be declared. The governor appointed

[10] *Niles Register*, Sept. 11, 1830, Vol. 38, p. 35.

a comptroller, who was to make annual statements of the bank's condition to the legislature.

In 1835 the bonds falling due were funded for 13 years, and some of them form part of the present debt of the state. Exclusively a planters' bank, the bank made mainly long-time loans; and when the state in 1842 took over the bank, it found that most of the loans were frozen.[11]

4. The Union Bank

The Union Bank of 1832 was the bank that drew perhaps the most attention from the country as a whole; it was copied by Arkansas, Mississippi, and Florida;[12] and later the Federal Land Bank made use of the same principle. Still enthusiastic over the success of the Bank of Louisiana and the Louisiana State Bank, the state gave the Union almost unlimited backing.

The Union Bank was chartered in 1832. In order to make possible a wide diffusion of loanable funds, eight branches were established. Of the 12 directors, 6 were to be appointed by the governor.

The bank was capitalized at $7,000,000, to secure which the state floated bonds secured by $8,000,000 of mortgages, and the stock could not be transferred for four years. The mortgages could be on cultivated lands, slaves, or lots occupied by revenue producing buildings.[13] Each subscriber was to be allowed to borrow one-half the amount of stock subscribed.

[11] See chapter following.
[12] *Baton Rouge Gazette*, July 7, 1832.
[13] *Baton Rouge Gazette*, July 7, 1832.

> The whole plan appears to have been devised with financial ability and to be well calculated to promote the interest of the state which possesses capacities for profitable industries, far beyond its capital. The plan derives additional interest at this moment, from the fact that several of the western states, as we understand, will be likely to establish similar institutions for their own benefit, and particularly to prevent the damage which otherwise might result from the withdrawal of the funds of the United States Bank, should that institution fail to obtain a renewal of its charter.[14]

The subscriptions went much beyond the allotment in each place.

> The subscription books of the Union Bank were closed Tuesday last, with a subscription, it is stated, amounting to twelve millions of dollars for the city, and twenty-five for the country. A considerable amount of the bonds . . . have been sold at a premium of six and one-half per cent, which, it is said, yields an immense profit to the bank, and leaves but little doubt, if its credit is well managed, of the balance obtaining a much greater premium.[15]

During the first five years of its existence the bank was very successful. One of the most prosperous of any of the New Orleans institutions, it was one of the few that did not default on interest payments on bonds between 1837 and 1843. And in 1843 it retired its first allotment of bonds without discount or delay.[16]

5. The Citizens' Bank

The Citizens' Bank of Louisiana was chartered April 1, 1833. By the terms of the charter the direc-

[14] *Niles Register*, Oct. 8, 1832, Vol. 43, p. 87.
[15] *Ibid.*
[16] Fortier, Alcee: *Louisiana*, Vol. I, p. 64.

tors were empowered to float a $12,000,000 issue of bonds secured by $14,400,000 in stock subscriptions open to all owners, individuals, or corporations, of property in the state of Louisiana.

Stock subscribers were allowed to mortgage land, cleared or uncleared, city lots, houses, and slaves attached to property. It being accepted that the value of Louisiana's slaves and property could never depreciate, subscriptions were accepted on mortgages given at the current valuations on property. One-third of the property mortgages could be slaves.

The bank was not permitted to make loans to total more than double the capital, nor could its demand liabilities, exclusive of deposits, be more than double the capital.

The state reserved the right to a credit of $500,000. Three million dollars were allotted to be loaned in the parishes outside of the Parish of Orleans. The bank was allowed to lend to builders of houses and to the Lake Borgne Navigation Company. It was obligated to dig a canal and was authorized to build a railroad. In consideration for digging the Lake Borgne Canal, the bank was exempt from all state and local taxes. In case of failure to dig the canal, it was to pay the state $500,000.

Stock subscriptions amounted to $25,875,000. The bank issued $12,000,000 in bonds secured by $14,400,000 in mortgages. However, the security behind the bonds was not sufficient to meet the demands of foreign bond houses.[17] More than two years after the bank began its attempts to sell the bonds, the state on January 30, 1836, amended the

[17]Rightor, Henry: *Op. cit.*, p. 594.

charter and agreed to issue state bonds and take the bank bonds as security. The act provided for the immediate issue of $3,000,000 in bonds and gave permission to the governor and treasurer to issue $9,000,000 more state bonds as they deemed necessary. The money was immediately secured, and the bank opened for business.

The Citizens' Bank did perhaps more to facilitate the commerce in the Mississippi Valley than any of the banks in New Orleans. When the banks suspended in 1837 and New Orleans bank notes were at a discount of 7 per cent in New York, the Citizens' Bank attempted to raise the value of the notes in the West.

> New Orleans, Louisiana, July 12, 1838, the Citizens' Bank of this place has made arrangements with one or more of the banks in Cincinnati to circulate a million or more of its money to reimburse them by exchange on the North, to be purchased here, and the banks in Cincinnati to purchase exchange on their place and send it to the Citizens Bank here . . .
>
> This they expect will regulate all the exchange and currency in the West . . . They put down exchange on New York from 7 to 6, but this did not last but a single day, and has again returned to 7.[18]

The Citizens' Bank is one of the many claimants to the distinction of having originated the word "Dixie" as a synonym for the South. On the face of its ten-dollar bills, the most popular notes issued, the bank printed in bold letters the word "Dix," the French equivalent of ten. In time, claims the bank, the word was in common use by all nationalities. When some trader up the Mississippi was asked

[18]Raguet, Condy: *Financial Register of U. S.*, Vol. 2, p. 96.

where he was going, his answer would be that he was going after some "Dixies," and in consequence of this custom people came to refer to the South as "Dixie," the land where ten-dollar bills abounded.

6. The New Orleans Gas Light Company

The planters were not the only group to secure special banking privileges. Improvement banks were set up in rapid succession. The New Orleans Gas Light and Banking Company, incorporated in 1829, was given banking privileges and the right to capitalize at any amount between $100,000 and $300,000. Through this bank Mr. James H. Caldwell, the bank's president, financed the completion of the gas light system that gave New Orleans the best street lights in America. So successful was his lighting system that Mr. Caldwell soon became one of the dominant figures of the state.

In 1835 a new charter was granted the New Orleans Gas Light and Banking Company. Under the new charter it was capitalized at $6,000,000. Branches were established at Alexandria, Port Hudson, Springfield, Napoleonville, and Harrisonburg. It was expected that the Bank would establish lighting systems in these towns like the system in New Orleans, but the bank did not meet these expectations. In 1845 the stockholders requested that its charter be given up.

Mr. Caldwell gave up his franchise in consideration of 500 shares of the new bank. These shares were to be paid for out of the surplus profits of the bank over and above 8 per cent. When the first dividend was declared, only $30 per share had been

paid in by the subscribers, and the directors paid Mr. Caldwell dividends on the basis of $30 per share, or $15,000. The directors also refused to give him the 500 certificates of shares. Mr. Caldwell then brought suit and forced them to pay him dividends on $50,000 and also to give him the stock certificates.[19]

The state became part owner in 7 different banks, having put about $24,000,000 into them. In addition to these state owned banks, the state chartered nine other banks before 1837. Most of these banks were organized for particular improvements. The Canal Bank, organized in 1831 with a capital of $4,000,000, was to construct a navigable canal from Rampart Street to Lake Pontchartrain at a cost of about $1,000,000.[20] The Improvement Bank, with a capital of $4,000,000, was organized in 1834 and was to construct the St. Louis Hotel.[21] This hotel cost $9,000,000.

In 1835 the Exchange Bank, with a capital of $2,000,000, was chartered on the condition that it would build a hotel in the American part of the city.[22] The St. Charles Hotel was constructed by this bank at a cost of $616,775.[23]

At this time many travelers from the North and from Europe were spending from three to six months a year in New Orleans' delightful winter climate. Seeing in these travelers a possibility for great profit, people urged that New Orleans banks erect the finest hotels in the country. The banks did not fail them.

[19]Raguet, Condy: *Financial Register of U. S.*, Vol. 2, p. 29.
[20]Louisiana Law of 1831, Section 2.
[21]Louisiana Law of 1834, Section 1.
[22]Louisiana Law of 1835, Section 4.
[23]Trufant, S. A.: *Review of Banking in New Orleans from 1830-1840*, p. 8.

At the time of the Panic of 1837 there were in Louisiana, according to a legislative committee report of December 23, 1837, 16 banks, exclusive of branches. The total nominal capital was $55,032,000; the paid-in capital was $39,943,632.[24] In 1837 the auditor's report of Pennsylvania stated that Pennsylvania had chartered banking capital to the amount of $57,915,681, and the Banking Commissioners' Report for the same date for New York shows that the state had a total banking capital of $27,110,460.[25] The figures on banking capital in Pennsylvania and New York are given to show the magnitude of that of Louisiana. It is evident that Pennsylvania had been very extravagant in chartering banks. An advocate of liberal banking in that state had the following to say with respect to Louisiana:

> The banking capital of Louisiana will have been enlarged before the close of the present session of the legislature, to about seventy-two millions of dollars; upon which it is supposed discounts are, and will be, made to the amount of one hundred and fifty millions of dollars. If the government of Pennsylvania is to be put down for incorporating thirty-five millions of existing bank capital (this refers to the chartering of the United States Bank to take the place of the Second Bank of the U. S.)—if conventions are to be called and mob law invoked to punish Pennsylvanians for daring thus to understand and pursue the true interest of their state, what shall be done to Louisiana, which has chartered new capital to an amount (according to the federal population) more than ten times as great as the old capital to which a new charter has been granted by Pennsylvania?[26]

[24] *Ibid.*
[25] *Ibid.*, p. 9.
[26] *Niles Register*, March 5, Vol. 50, p. 2.

Of course the total capital of Louisiana had not reached "seventy-two millions of dollars," but such a report was current in the East, for *Niles Register,* after investigation, corrected this report.[27]

The New Orleans banks had secured most of their capital from other states and from foreign countries. The report of the legislative committee previously referred to shows that the paid-in capital of all the banks amounted to $39,943,832, of which $20,725,080 had been secured in Europe, $6,945,710, from other states, and $12,273,042, from Louisiana. A reading of this report will show that the outlays made by these banks were made in preparing the city to take care of business coming to it, and that practically nothing was expended for bringing additional traffic its way.

The prosperity in New Orleans was perhaps more speculative than in any other part of this country. However, the hard times of 1834, following the retrenchment policy of the Second Bank of the United States, were not felt in Louisiana. Farmers found easy money with which to purchase more slaves, as well as to improve and enlarge their plantations; real estate dealers were still able to finance both their city additions and country tracts; and the state continued to find credit abroad for its banks.

It was not until 1836 that any signs of the end of a perfect day were noted.

> Specie has become scarce in New Orleans, and the papers of that city announce, with no little satisfaction, the arrival of parcels from abroad. $100,000 arrived on the 10th from Philadelphia, and $55,000 from Natchez, and the banks have made a joint

[27] *Ibid.*, April 2, 1836, p. 73.

arrangement for the importation of $3,000,000[28] from Mexico to be paid for by bills on England.

In 1837 the Louisiana banks had a circulation of $7,558,465, specie in vaults $2,729,983, individual deposits $7,096,456. Loans on real estate are not separated from commercial and personal loans in the committee's report, but the total of all loans is given as $43,341,904. Banks held 17 per cent of specie against demand liabilities (deposits and note circulation). This on the face of the items looked good, but there is every evidence that a large per cent of the loans was on real estate and stock mortgages. Googe's Journal of Banking reports a statement from the New Orleans Bank for May, 1841 which gives the amount of real estate loans separate from other loans. The amount was $37,793,798. It is reasonable to suppose that banks made very few loans between the time of the panic and this date. On this assumption 87 per cent of all loans and discounts was of a long-time nature. Under such non-liquid conditions banks were ill prepared to meet a crisis. And when the crisis did come in 1837, depositors and note holders alike rushed for their specie, and the banks were forced to suspend.

During the boom period of the late twenties and the early thirties, everything had gone well with the banks. What losses they had had, were due to theft, default, and counterfeiting. The aggregate was only a small per cent of the total capital of the banks. While New Orleans banks had apparently been most prosperous before 1837, they had created a most striking example of the futility of liberality in making long-time loans.

[28] *Ibid.*, November 5, 1836, Vol. 51 p. 160.

CHAPTER V

BANKING TROUBLES (1837-1860)

"The visionary Prophets of one day stimulate extravagance, and the losses of another engender spleen."
—Publicola to Mr. Gallatin.

Writing in 1844, B. R. Curtis declared that the year 1837 ended "one of the most extraordinary financial periods—perhaps the most extraordinary one—the world has ever seen, and nowhere were its effects so fully exhibited as in this country."[1] This "extraordinary financial period" is generally accepted as having begun in 1820—an arbitrary date, for the period was born shortly after the Napoleonic Wars, arrived to lusty maturity about 1830, and died in 1837. It is commonly called a period of madness; but the delusions of grandeur that swelled the minds of the visionary prophets of that day are treated by later critics with more sympathy than historians are wont to accord the follies of the past.

After 1815 a continent left prostrate by the Napoleonic Wars set about the weary process of reconstruction and by 1830 was well on the way to recovery. In England the Industrial Revolution attained to full growth during this period. In this country business and commerce increased at an almost incredible rate.

A number of circumstances helped to further this development. One of the most important was the

[1] *North American Review*, Vol. LVIII, January, 1844, p. 110.

substitution of foreign bills of exchange for the old system of specie shipments, objectionable because of risk, delay and expense:

> "At a period when confidence was rising and profits seemed certain, this new arrangement began to be resorted to as a new mode of obtaining means with which to trade; while, at the same time, the general confidence and the apparent prosperity made it very easy to obtain bills. Credit to an immense amount was thus created, and our whole commerce felt the stimulating effects of this new cause."[2]

Business was also stimulated by the acquisition of great amounts of foreign capital from the sale of stocks and bonds of banks and of enterprises both private and public. States especially availed themselves of easy credit; from 1830 to 1842 the states' indebtedness increased from $13,000,000 to $213,777,916; and the states could have borrowed more.

> "In 1834 the last installment of our public debt was paid. No more money went out of the country through this channel. This was an event of great importance to the country, and certainly its importance was not inadequately estimated either at home or abroad. Here, the party newspapers made the most of it with the people, in order to obtain credit for the preceding administration by which it had been accomplished. Abroad, it was considered very striking from its novelty; for we were the first, and are still the only nation in modern times, which has ever wholly freed itself from debt. This fact tended to raise the spirits of the country, to give the people great confidence in their resources, and to incite them to large undertakings."[3]

[2] *Ibid.*, p. 112.
[3] *Ibid.*, p. 111.

Credit—and, by the same token, business—was further expanded by the sale of public lands. In payment for these lands the Government accepted notes on state banks and allowed the proceeds from the sale of the lands to remain on deposit in the state banks. With the money received for the sale of the land purchased from the government, the land companies paid off their notes to the banks and then borrowed more. This cycle of easy credit, which permitted the banks to pyramid their credits to empyrean heights was followed by a flood of immigration. Land values soared beyond the view of sober reason, and the mania of borrowers to borrow was equalled only by the eagerness of lenders to lend.

In 1832 state banks' loanable funds were considerably augmented when President Jackson transferred to them government deposits then held by the Bank of the United States. In 1837 the Government again increased the amount of loanable funds when it began the distribution of the $37,000,000 surplus that it had been accumulating since 1834, the year in which the last installment of the public debt had been paid. The panic of 1837 upset the Senate's calculations in 1835 that the annual surplus for the next eight years would amount to $9,000,000; but it came late enough to allow the states to get a half of the $37,000,000.

The credit inflation consequent upon the transference of federal deposits to state banks did not stop here, however: President Jackson by this action and by his first message to Congress had left no doubt of his intention to destroy the Bank of the United States; and speculators, seeing their opportunity,

established banks everywhere in the country. From 1829 to 1837 the number of banks increased from 329 to 788, and banking capital, from $110,000,000 to $290,000,000. Note circulation increased from $48,000,000 to $149,000,000, and loans from $137,000,000 to $525,000,000.[4]

In every state of the Union during this period expansion and speculation mounted to the skies. All men bestrode the clouds, but nowhere with so brave a show as in New Orleans. From 1830 to 1837 the number of banks in Louisiana increased from 4 to 16, not including branches. Banking capital rose from five to forty millions (almost half the capitalization of the entire South and West).[5] While trade was increasing only 50 per cent, the amount of capital increased 800 per cent.

> "There was but one outlet to such an excess of loanable capital—it must be used in speculation. The great staple, then as now, of the New Orleans market was cotton, and under the influence of an excess of money the price of cotton rose largely, and, by a strange anomaly, ruled higher for several years at New Orleans, the port of shipment, than at Liverpool, the port of consumption. Such being the fact, the trade was, for a long time, conducted at a loss, and these losses fell upon the banks, and locked up their available means. The excess of capital, as must always be the case under such circumstances, was gradually absorbed and obliterated by the speculation which it had engendered. In the language of a writer of that period, 'All the capital which, during the undue excitement of the years subsequent to 1832, was drawn into banking by the operation of speculation in raising prices and creating an extraordinary demand for money, had, in

[4]De Bow, J. D. B.: *Industrial Resources, etc., of S. and S. W.*, p. 288.
[5]Comptroller of Currency, 2nd Sess. 44th Cong., No. 1753, p.cxiii.

> the general fall of property, ceased to exist, leaving, however, active as much capital as was necessary for the transaction of business.' "[6]

The bubble burst in 1837. Among the many reasons usually given to account for the panic of 1837 are the "specie circular," requiring payments on public lands to be made in specie; the redistribution of federal deposits; the raising of the discount rate by the Bank of England from 2½ to 5 per cent; the wheat crop failure; and the fall of 25 per cent in the price of cotton. Historians are, as usual, less in agreement as to the causes than as to the results. Jenks summarizes the results:

> "The fall of 25% in the price of cotton in February and March, 1837, heaped calamity upon the 'American houses' and with them upon traders and speculators, planters and farmers throughout the United States. Three of the merchant-banking houses were carried to the ground in the financial storm which broke on both sides of the Atlantic. American banks generally suspended payment. Hundreds of tradesmen of high and low degree were forced into insolvency. Nine out of ten factories in the eastern states shut down. Half the employees in seaboard commercial houses were on the streets."[7]

Nowhere was the stringency greater than in Louisiana. Of the twenty million dollar loss to American firms consequent upon the fall in the price of cotton, a greater portion was suffered by New Orleans than by any other American city. All but four or five of the principal cotton factors failed, factors "through whose credit and capital the planters of Louisiana, Mississippi, Tennessee, and Alabama were

[6] *Bankers' Magazine*, Vol. XXXII, Nov. 1877, p. 347.
[7] Jenks, L. H.: *The Migration of British Capital to 1875*, p. 87.

enabled to purchase lands and slaves, to improve their plantations, and to anticipate the proceeds of their crops, involving responsibilities estimated at thirty millions of dollars."[8] When the inevitable runs set in, banks were forced to suspend.

Immediately after suspending, the banks set about collecting on all due paper. They were forced to this course by considerations of their own survival. Louisiana laws required banks to forfeit their charters after 90 continuous days of suspension. Banks were also required to pay 10 per cent interest on all notes not paid at the time they were presented. By February, 1838, $10,429,318 of protested notes were held by New Orleans banks.[9] From March, 1837 to the end of the year, 2800 foreclosure suits were entered in the Parish of Orleans alone at an estimated cost to the debtors of $330,000.[10]

These foreclosures were about as popular as those of the current depression. Public indignation at the banks' course resulted, May 4, in the holding at Alexandria of a mass meeting by people from all over the state to petition the governor to call a special session of the legislature. The governor published a notice of refusal on June 12. He accounted for his refusal by stating that the currency situation was a national, and not a state, problem. He also expressed the belief that any action on the part of the legislature would only make matters worse. From this time until the close of his term, it was a question which was the more unpopular, the governor or the banks.

[8] *The Financial Register of the U. S.*, Vol. II, p. 129.
[9] *Niles Register*, Vol. LIII, Feb. 17, 1838, p. 400.
[10] *The Financial Register of the U. S.*, Vol. II, p. 254.

Some concessions were made by the banks to the demands of the irate public, but the concessions were verbal and not monetary. June 14 the *Commercial Bulletin* attempted to justify the ways of banks to man: it furnished an "extract of the liabilities of all the banks in the state, contrasted with their available assets." The "extract" was very reassuring; unfortunately, however, it did not coincide with the figures given by the banks to the Secretary of the Treasury.

When the legislature met in 1838, the lines between the friends and enemies of the banks were sharply drawn; and the people followed the proceedings with grim interest. In February the legislature passed the banking bill of 1838, a measure very similar to that enacted in 1842.[11] March 4, 1838, the governor vetoed the bill on the ground that the banks were in sound condition.[12] Two days later, the vetoed bill passed the Senate by a constitutional majority, but failed to pass in the House.[13] The legislature of 1838 adjourned without having passed a single piece of bank legislation.

> "Conjectures were made as to what would be the next move after the governor vetoed the bill. Movements were begun to defeat the opponents of the bank bill in the July election, but many moves were made. 'The wind of Heaven' blowing 'where it listeth' is not more uncertain than are the movements of those whose profound heads regulate the currency—from the legislature of Louisiana down to Martin Van Buren."[14]

[11] See following chapter.
[12] *The Daily Picayune*, March 5, 1838.
[13] *Niles Register*, Vol. LIV, March 19, 1838, p. 48.
[14] *The Weekly Picayune*, March 12, 1838.

Meanwhile the banks completely ignored the fact that the law required them to forfeit their charters after a suspension of 90 days; and the Board of Currency, composed of the Attorney General and the Secretary of State—who were charged with the responsibility of enforcing the bank laws, took no official notice of the banks' remaining suspended two years.

January 7, 1839, A. B. Roman became governor, and a new legislature met. The bank bill was again introduced, but it never reached the governor. However, the legislature did deal with the banks' infraction of the law: it abolished the law. It reinstated "such of the banks as may have forfeited their charters by a suspension or refusal of the payment of their notes as obligations in specie, at any time prior to the passage of this act, . . . to all the powers, rights, and privileges conferred upon them by their respective charters, notwithstanding any forfeiture thereof, to the same extent as if no such forfeiture had ever existed."[15]

September 18, 1839, every bank in New Orleans again suspended. (They had resumed a few days prior to the meeting of the legislature in January.)[16] The state then brought suit to test the validity of the charter of the New Orleans Gas Light and Banking Company. The court held that the law of 1839 reinstating banks provided that banks suspending in the future forfeited their charters the day of suspension.[17] The victorious Attorney General made no effort to enforce this decision, and the suspended

[15]Act 22, Sec. 1, Louisiana Legislature, 1839.
[16]*Niles' Register*, Vol. LVI, No. 2, 1839, p. 154.
[17]State v. N. O. Gas Light and Banking Co., *Robertson's Reports*, Vol. II.

banks continued to operate. As the Financial Register put it: "There was every evidence that the banks attempted to control the law, but when unable to make the laws, they disobeyed them."

Not until 1842 did the legislature pass a banking law. The failure to deal any sooner with the banking crisis the *Times-Picayune* explained by calling the legislature "bank-bought;" and Gayarré wrote in 1865 that it "was generally believed at the time, on the part of persons who had made the calculations, that the members of the legislature in their private capacities, owed to the institutions about one million dollars."[18] Moreover, the banks employed indirect methods in controlling the legislature: they exerted pressure through the voters, most of whom owed the banks.[19] The banks could threaten borrowers with foreclosure; and then when the borrowers' submissiveness made foreclosures unnecessary, could bask in the sunshine of the world's smiles of joy at their magnanimity.

By 1842 the need for a change in the bank system was too great to be any longer ignored. Economic conditions were at an almost bottom level. To name only two items, cotton was down to 4½ cents,[20] and bank notes had fallen in value 40 to 50 per cent. The state no longer had any credit. Unable to pay its own way, it was also unable to borrow from the Louisiana banks. And having defaulted on the bank bonds it had guaranteed, it was unable to get money abroad. Some remedial legislation was imperative.

[18]Gayarré, Charles: *History of Louisiana*, p. 660.

[19]The Supreme Court in the case of La. v. Farrar estimated that nine-tenths of the farm owners owed the banks, 5 *La. Ann.* 535.

[20]*The Daily Picayune*, December 14, 1841.

December 13, 1841, the governor called upon the legislature to relieve the situation. Said the Daily Picayune of his message:

> "He lays it into the banks in right good interest, pronounces the long suspension illegal—a violation of a solemn contract and demoralizing on society. Their charters, he says, are virtually forfeited, and he earnestly calls upon the legislature to enforce an immediate resumption. The argument that it would not be politic on the part of our city banks to pay their liabilities in specie till a general resumption takes place throughout the Union, he deems fallacious and educes the case of New York and Boston banks in proof of his position. He further shows from the published statements of the banks, that since the suspension their financial condition, instead of improving, has been retrograding—in other words, that while their abilities have decreased, their liabilities have increased . . .
>
> "He proceeds to notice the late frauds on the part of the bankers and asks for an act to prevent such crimes hereafter, as experience has shown the inefficiency of existing laws."

The bank law passed. It did not pass without a struggle, however. Said one member of the House in a debate over the bill:

> "Few or none stand forward in justification of the course which the banks have pursued, and all remedies proposed for their better government appear to frighten honorable members from their adoption. The question seems to be, who will bell the cat? *Who will bell the cat?* And if any member has the temerity to stand up and say, 'I am ready to do it,' several good natured legislators start up in their places and say, 'You shall not, sir, you shall not. Why, bless your soul, sir, you would not only place your own life or your own interest, which is almost the same thing, in jeopardy, but you would destroy *your* interest—you

would annihilate the planting interest—the mercantile interest—you would, in a word, sir, bring ruin to the whole country.' Thus the cat is allowed to cut up his 'didoes,' and the few who have the courage are not permitted to *bell him.*"

February 8, 1842, the governor signed the bank bill. March 12 the presidents of the New Orleans banks in a meeting accepted the bank law, and, as the *Daily Picayune* said, "put an end to one long controversy which threatened serious consequences."

The U. S. Treasury report on the New Orleans banks records a great change in almost every item from 1841 to 1843. Capital decreased from $41,700,000 to $20,929,000; loans and discounts fell from $48,646,000 to $20,420,000,[21] and note circulation from $6,443,000 to $1,087,000. Specie increased from $3,163,000 to $4,451,000, and deposits, from $3,094,000 to $5,338,000.[22]

After the passage of the Law of 1842 the state took over the banks which had defaulted on the bonds it had guaranteed. By this action it assumed the responsibility of paying off some $17,000,000 of defaulted bonds;[23] and when the legislature met in 1843, it immediately took up the problem of liquidating the banks and funding the bonds.

The Law of 1843, in addition to setting up the machinery for liquidating banks taken over by the state, permitted debtors to pay off their obligations to the state in bonds at par value. Interest on these bonds had gone unpaid for two years; and because of this—and the fact that nine other states had

[21] Nothing like this figure was paid off. The decrease is explained by the fact that the seven failing banks made no report.

[22] *Report* of the U. S. Comptroller of the Treasury, No. 1753, p. cxiii.

[23] *International Review*, November, 1880, p. 562.

defaulted and two repudiated their bonds—England had declared a boycott on American exports. This boycott had caused a further drop in the price of cotton and made it utterly impossible for Louisiana to pay off the bonds. After the boycott was broken, England proposed a method by which the states could pay off the bonded indebtedness in cotton. "A steady stream of bonds started from England in payment for cotton and were automatically retired when American planters used them to pay off their debts."[24]

That portion of the Bank Law of 1843 permitting the debtors of the state to pay off their obligations in bonds at par value caused the state to be severely criticized. B. R. Curtis, afterward Justice of the Supreme Court of the United States, said of the law that "it impaired the obligation of a plain contract between the state and the banks on the one part, and the bondholders on the other; it is therefore in conflict not only with the constitution of the U. S., but with the fundamental law of Louisiana, which prohibits the legislature from enacting any laws impairing the obligation of a contract." The state, said Curtis, "had no right to receive depreciated bonds at par in payment for well secured debts which it held in trust for third persons."[25] R. P. Porter echoed this objection.[26]

These objections merit comment if for no other reason than the eminence of the critics. The bonds issued by the state on behalf of the banks were secured by stockholders' mortgages, by the assets of

[24]Jenks, L. H.: *The Migration of British Capital to* 1875, p. 107.
[25]*North American Review*, January, 1844, Vol. LVIII, p. 139.
[26]*The International Review*, Nov., 1880, p. 563.

the bank. When the state took over the banks, it took not only the assets of the banks; it assumed their liabilities as well. For the state to have cancelled the bonds for any amount less than their par value, would have been "to impair the obligation of a plain contract,"—the obligation of the state to pay off its bonded debt. Had the state received these bonds at less than their par value, it would have been repudiating a part of its debt and allowing the stockholders to settle their obligation for less than the amount specified in their contract. Judge Curtis argues that the stockholders should not be obliged to pay off their debts; he does not discuss the plight of the bondholders.

The laws of 1842 and 1843 by no means relieved the state of its bank troubles. The problem of collecting the assets and funding the bonds was a constant source of trouble for nearly forty years. A portion of the bonds was a part of the consols of 1876,[27] funded in 1913 and outstanding today.

Of all the banks the most troublesome was the Consolidated Association of Planters. The bonds of the Association fell due in 1847. The legislature funded these bonds and made the new issues payable in series of 6, 9, 12, 14 and 18 years. A Board of Managers, set up by the law, appraised the assets of the band and secured new mortgages to be retired in equal annual installments over a period of 18 years, beginning in 1848. The Board also calculated the deficit and, in accordance with the law holding the stockholders responsible for any deficit, assessed each stockholder $6.00 per share per year for 17 years,

[27]Lesassier and Binder v. Board of Liquidation, 30 *La. Ann.* 611.

the first payment to be made in 1849.[28] The stockholders accepted the assessment,[29] but in 1850 attempted through the courts to force the state to assume one-sixth of the assessment on the ground that the state owned one million dollars of the bank's stock and was legally entitled to one-fourth of its profits. The court held that the one million dollars of stock was given as a bonus to the state and could not be taxed.[30] The stockholders paid 12 installments, but on the outbreak of the Civil War ceased their payments.

In 1866, the date set by the Law of 1847 for the completion of the liquidation of the Consolidated Association, the legislature extended the time for ten years. Not until 1878, however, did the state attempt to collect the unpaid assessments. In this year the legislature passed a law assessing each stockholder of the Association $40.00 per share. The stockholders refused to pay; and in the subsequent suit, the court ruled in favor of the stockholders, holding that in 1847 a contract had been completed by the stockholders' acceptance of the law of that year. The stockholders were not required to pay the five remaining installments, being relieved by prescription.[30]

The court condemned the bank management for its extravagance. Said the court:

> "The hordes of officers—president, vice-president, cashier, receivers, directors,—pass before us in this record of lengthened procession, laden with salaries and plethoric with stipends, and the lean and slippered

[28]Louisiana law of 1847.
[29]Consol. Assn. v. Lord, 35 *La. Ann.*, 425.
[30]Consol. Assn. v. Lord, 35 *La. Ann.* 425.

stockholder, gaunt from 40 years' exhaustion, at last holds up his hands in eager, passionate supplication for relief from this insatiate, ever-recurring hunger for more contributions. For only five and one-half years of the forty-one that have elapsed since the decree of 1842 terminated the corporate existence of the association, the expenses are thus summarized:

B. F. Flanders, receiver	$ 7,988.03
A. Eustis, receiver	4,165.33
L. A. Wilts, receiver	2,165.31
J. Calhoun, secretary, cashier, receiver	16,508.20
Lawyers	19,546.08
Employees	3,907.86
W. Stevens, president	3,239.93
Master in chancery	1,110.00
	$58,630.74

"This is the domestic expenditure from June, 1876, to January, 1882."

In 1847 the Citizens' Bank reorganized under its old charter and exchanged $800,000 of its own bonds for the same amount of state bonds. The state issued no bonds for the Louisiana State Bank. The Bank of Louisiana retired all of its bonds. The Merchants and Traders' Bank assumed under the Law of 1844 the $150,000 of bonds issued for it by the state. The Gas Light Bank was taken over by the state in 1844.

In 1857 $6,124,311.10 of state bonds issued for the banks were unpaid.[31] In 1874 the amount outstanding was $4,803,083.33.[32]

[31]La. v. Clinton, Auditor, and Dubuclet, Treasurer, 28 *La. Ann.* 219.
[32]For discussion of settlement of this amount, see Chapter VIII.

CHAPTER VI

THE BANK ACT OF 1842

FEBRUARY 5, 1842, the Louisiana legislature passed "No. 22—AN ACT to revive the charters of the several banks in the city of New Orleans, and for other purposes."[1] "This act," says the *Bankers' Magazine*, "will always remain among the most enlightened pieces of banking legislation to be found on the statute books of any country."[2] Horace White said of the law that it was eminently scientific and in nearly all respects a model for other states and countries.[3]

Though the Louisiana Supreme Court had held that under the law of 1839 any bank suspending specie payment forfeited its charter the day of suspension, the banks remained suspended, except for a few months in 1839, until the Bank Act of 1842 forced them to resume. Other bills had said, in substance, what the Act of 1842 said; none of them had provided for its own enforcement as did the Act of 1842.

Under this act banks were required to accept the law within twenty-five days after its promulgation, "and within three days thereafter to give written notice of said acceptance to the governor of the

[1]This act was several times amended, the last time in 1853. However, the law is commonly referred to as the Louisiana Bank Act of 1842.

[2]"The Louisiana Bank Act of 1844 *(sic,)*" *Bankers' Magazine*, Vol. 32, Nov., 1877, p. 347.

[3]White, Horace: "National and State Banks," *American Academy of Political Science*, Vol. III, March, 1893, p. 9.

state." It was made the duty of the attorney general to sue any and every bank refusing to accept the law for the forfeiture of its charter. "And should the attorney general neglect so to do for ten days after the expiration of the above time provided, it shall be the duty of the governor to consider his place as having been vacated *de facto*, and to appoint another attorney general in his place, who shall also be considered as having vacated his place, if not acting within five days of his appointment. And the governor to continue so to act until the full intent of this section shall have been carried into full effect."[4]

Any surviving bank that refused or neglected to comply with the conditions of the act was to go into immediate liquidation on the condition provided for in the act. If the bank refused to liquidate, the attorney general was to sue the bank for the forfeiture of its charter. And should the attorney general not do so within ten days of his notification by the governor, the governor was to consider the attorney general's office vacated.[5]

As a condition of the restoration of their charters, banks not in liquidation under the provisions of the Bank Act of 1842 were required "to receive at par at their respective counters, in payment of all debts and obligations due and owing them respectively, the circulation of the bank or banks that may enter into liquidation voluntarily or otherwise, under the provisions of this act. And the said circulation shall be distributed among the several banks not in liquidation, according to the circulation of each bank;

[4]Section 9.
[5]Section 10.

which circulation for the purpose of this liquidation shall be deemed to be as follows, to wit:

"The Union Bank of Louisiana, eight hundred thousand dollars.

The Citizens' Bank of Louisiana, seven hundred thousand dollars.

The Louisiana Bank, seven hundred thousand dollars.

The Consolidated Association, five hundred thousand dollars.

The New Orleans Canal and Banking Company, five hundred thousand dollars.

The Commercial Bank of New Orleans, seven hundred thousand dollars.

The City Bank of New Orleans, five hundred thousand dollars.

The Mechanics and Traders' Bank, four hundred thousand dollars.

The Carrollton Bank, two hundred and fifty thousand dollars.

The Exchange and Banking Company, two hundred and fifty thousand dollars.

The Improvement Bank, two hundred and fifty thousand dollars.

The Atchafalaya Bank, one hundred and fifty thousand dollars.

The Bank of Orleans, one hundred and fifty thousand dollars."[6]

The cash assets of the liquidating banks were to be distributed in the same ratio among the banks receiving the circulation. The whole amount advanced to the liquidating bank or banks in receiving the circulation was to be guaranteed by the liquidating banks' mortgage assets or by such securities as were approved by the board of currency.[7] The

[6]Section 8.
[7]Section 8.

banks receiving the circulation were permitted to charge 8 per cent on the loans made by the liquidating banks and "to lodge the securities thus received in guarantee of the issue."[8] This section of the act was later so amended that no bank was bound to receive in payment the notes of any bank or banks in liquidation to an amount which would exceed in the aggregate 33-1/3 per cent of the circulation of the bank thus receiving it, this amount to include the notes of the liquidating banks held by and all balances due to the bank receiving the notes. Moreover, no bank was to receive a larger amount of the circulation of a liquidating bank than that for which available security was given, the sufficiency of which security was, in case of difference of opinion, to be determined by the board of currency.[9]

If at the time of the final settlement of the affairs of the liquidating bank, the assets of the liquidating bank were not sufficient to discharge all its liabilities, the bank taking up its circulation was to "suffer a loss *pro rata* with all the other creditors on the amount due it at the time a petition for a surrender of its charter by a bank" was filed, or a decree of forfeiture thereof was rendered.[10]

No part of the law is more commendable than Section 3, which prescribes the terms of liquidation of the mortgages. Debtors were, of course, in no position to pay their obligations; and had the state demanded full and immediate payment, it would have had no other recourse than to foreclose on the

[8]See page 79.
[9]Act No. 93, Section 4.
[10]Act No. 93, Section 4.

mortgages. Realizing the necessity for an extension on the loans, the legislature wrote into the act the requirement that the banks place these mortgages in their "dead-weight"[11] and renew the debts then due and that might mature thereafter, "on the application being made to that effect by the respective parties, on the following conditions:

> "1. The payment of ten per cent, exclusive of interest, on the maturity of the debts, and the balance at twelve months, renewable until fully paid, on the payment of fifteen per cent, each year on the original amount. *Provided,* ample and satisfactory security on real estate can be furnished by the applicant.
>
> "2. The payment of ten per cent, exclusive of interest, on the maturity of the debts, and the balance by equal installments of six, twelve, eighteen, and twenty-four months, provided the applicant furnish good and sufficient personal security. *Provided,* that for the debts due to the branches or by persons residing in the country, on personal security, twelve months shall be granted to the debtors on the payment of ten per cent. cash, exclusive of interest, and such debtors to retain the right to renew the same from year to year, on the payment of fifteen per cent. on the original amount until fully paid."[12]

It was further provided that debtors could not secure additional loans until the whole of their original debts was paid.

Perhaps the most pressing problem that faced the framers of the Bank Act of 1842 was that of the currency. In that year the Associated Banks of New Orleans agreed to sustain a circulation in which the notes of all the banks were given an equal market value. The result was, of course, that the notes of

[11]Loans from capital of the bank; see page 76.
[12]Section 3: 1, 2.

the weak banks drove the notes of the strong banks out of circulation. By January, 1842, even the notes of the strongest banks had depreciated.[13] Post notes, issued without legislative authority, came into use; and January 24, 1842, the legislature passed Act No. 17, "to prevent further violation of the law by the banks," which made it unlawful for any bank to issue any note or other obligation for circulation except such as were payable in gold or silver and on demand. Currency became even scarcer than before.

> "Such was the pressure throughout the whole community from the absence of a sufficiency of a sound currency to meet the general wants that even the taxes could hardly be collected, and the revenues of the state had diminished to the amount of nearly two hundred thousand dollars in the year 1842."[14]

To meet this situation, the legislature permitted the banks to issue post notes, payable September 30, 1842, up to double the amount of specie on hand.[15] The amendment to this act, passed March 7, 1842, extended the date of payment of the post notes to Monday, December 1, 1842, and permitted the amount of such notes to be increased to three times the amount of specie on hand.

The first of the "fundamental principles" of the law was that requiring banks to separate their loans of capital from the loans of deposits.[16] The former type of loan was called the "deadweight," the latter, the "movement." Loans on capital were to be made on personal security, mortgages, loans on stock by the property banks, and all other investments of

[13]Rightor, Henry: *History of Louisiana*, p. 597.
[14]Gayarré, Charles: *History of Louisiana*, p. 661.
[15]Section 5.
[16]Section 1:1.

whatever nature not realizable in ninety days. Only commercial loans running for ninety days or less were to be made from the "movement."[17]

That part of the law permitting loans on mortgages has been severely criticized on the ground that mortgage loans are not a part of the business of commercial banks. "In principle the capital of a bank is only a guarantee fund to protect the public against ultimate losses in dealing with it,"[18] For that reason "in the best modern practice, the proprietors' capital. is not invested in current loans."[19] At the time of the passage of the Act of 1842, the United States did not have a large funded debt, and the bonds of the states were not considered safe investments. "There was, therefore, no class of public securities in which bank capital could be invested. Nor did there exist at that time, or since, in New Orleans, any savings banks, or trust companies, such as, in northern cities, absorb the best class of mortgages."[20] In spite of the fact, however, that the banks could not invest their capital in government bonds, they should not have been permitted, say the critics, to put their capital into mortgages. "Mortgage loans are all right in themselves, but they are no part of the banking business."[21]

The most important provision of the Act of 1842 was that requiring one-third of all the liabilities to the public, that is, notes and deposits, to be kept in specie and the remainder to be in ninety day paper.

[17] *Ibid.*

[18] The Louisiana Bank Act of 1844 *(sic)*, *Bankers' Magazine*, Nov., 1877, pp. 349-350.

[19] *Ibid.*, p. 350.

[20] *Ibid.*

[21] White, Horace: "National and State Banks," *Annals of the American Academy*, Vol. III, March, 1893, p. 4.

This was the first law passed in the United States requiring banks to keep a specie reserve against notes and deposits.[22]

That part of the Act of 1842 governing note issues was copied from the system used by France, which Horace White calls the banking principle.[23] This system places no legal limit on the amount of notes a bank may issue, requiring only that the bank have a certain reserve against the notes it does issue. This principle assumes "that all trade is barter, and that notes are used only because they make barter easy. A community will use just as many notes as it needs to effect exchanges, and no more."[24] Massachusetts adopted this principle in 1858.

In framing the Act of 1842 the legislature did not omit to provide for the enforcement of the act. Each director of the banks was held fully liable for every illegal loan unless he could prove by the minutes of the board of directors that he had voted against the illegal loan. "No bank shall increase the investment of its 'deadweight' so long as the whole of its cash liabilities shall not be represented by one-third of the amount of such responsibilities in specie and at least two-thirds in satisfactory paper, payable in full at maturity, and within ninety days, and each and every director shall be personally responsible for all loans and investments made in contravention

[22]Or anywhere else, though the Bank of England followed the practical rule of keeping a reserve of 33 1/3 per cent.

[23]The opposite of the banking principle is the currency principle, followed by the Bank of England. This system assumes that a certain amount of notes will be demanded by the community at all times. New York adopted this principle in 1838. Instead, however, of furnishing the amount of currency assumed to be demanded, New York required deposits of state bonds to guarantee the payment of the notes and, in this way, benefited from an artificially created demand for its bonds. In 1853 Louisiana changed to this system for free banks.

[24]White, Horace, "National and State Banks," *Annals of the American Academy*, Vol. III, March, 1893, p. 17.

of this rule, unless he can show that he has voted against the same if present."[25] All loans made for less than ninety days were to be payable at maturity, and any "maker or endorser of any note, or acceptor of any bill of exchange offered and discounted as paper strictly payable at maturity" who applied for renewal or extension of time was to have his account closed, and other banks were to be notified of the action."[26]

The common practice of wild cat banks at that time, of issuing notes and then buying them up at a discount, was prohibited in the Louisiana Bank Act of 1842. Banks were not permitted to pay out any but their own notes over their counters. In addition, New Orleans banks were required to exchange their respective notes with each other each day and once a week to settle their accounts with each other in specie.[27]

A Board of Currency was established by the law. This board was to be appointed annually by the governor and to consist of three persons having the following qualifications: they must be citizens of the United States and of the state of Louisiana and must have resided four years therein; they could not be directors of a bank or commercial partners of any bank director or officer of a bank; and they could not be money brokers.[28]

> "The duty of the board of currency shall be, to take care that the paper money issued under the authority of the state shall not be depreciated; and for this

[25]Section 1: 2.
[26]*Ibid.*
[27]Section 12.
[28]Section 2.

purpose the following powers are hereby vested in them, to-wit:

1. To supervise the faithful execution of this act, and of the charters and by-laws of all banks working under it.

2. Thoroughly to examine the affairs of any bank whenever they may deem it expedient to do so, and at least quarterly.

3. To require of the president and cashier of each bank, on Saturday of each week, the following statement in a printed form signed by them.

1. Capital realized $.....

2, Amount of 'deadweight' under the respective heads of real estate, loans on stock, long loans, personal or otherwise, protest paper, and in fine, of all assets not realizable within ninety days.

3. Movement of the bank, to-wit:

Loans on paper payable at maturity and intended to meet the two-thirds of cash liabilities unrepresented by specie.

Circulation.

Deposits and other cash liabilities.

Specie and other cash assets."[29]

These statements were to be filed with the board of currency on the last Saturday of each month, and the board was required to publish them in the state paper on the first Monday in each month. The board was also required to lay before each legislature a report on the meetings of the stockholders of the various banks.[30]

The Act of 1842 was accepted by five banks—the Citizens', Improvement, Louisiana State, Consolidated Association of Planters, and Carrollton; eleven banks rejected the law—the Union, City, Commercial, Gas, Orleans, Canal, Bank of Louisiana,

[29] *Ibid.*
[30] Section 2: 5.

Exchange, Atchafalaya, Merchants and Mechanics', and Traders'.[31]

Though the banks resumed specie payment in May, several months before the law required them to, the currency situation remained bad. Indeed, resumption for a time aggravated the situation, because it had the effect of discrediting the city scrip, officially called "*billets des municipalities,*" and popularly, "shin plasters." Approximately $1,000,000 of this scrip had been issued, and up to the time of the bank's resumption had circulated at par, in preference to the depreciated bank notes.[32] Most of the "shin plasters" were held by the poorer classes, and the depreciation of these notes resulted in the people's staging a riot that very nearly wrecked the financial district.

July 16, 1842, only four banks were paying specie, the Union, the Mechanics and Traders', the Bank of Louisiana, and the Gas Bank. These banks, however, had but few notes in circulation. Money conditions were still deplorable, and nearly all bank notes were at a discount of from 20 to 40 per cent.[33] Some notion of the currency situation can be formed from the following incident related in *Niles' Register*:

> "A note drawn in the name of the Gas Bank of New Orleans, and signed by its then president, Thomas Barrett in favor of the Bank of the United States, payable to Mr. Jaudon and now overdue, was sold at auction the 29th instant at the St. Louis Exchange by the sheriff of the district court. Its amount was

[31] Rightor, Henry: *History of Louisiana*, p. 598.

[32] "Shin plasters" were in great demand because they were in small denominations. This attraction was great enough to prevent the working of the "law" that cheap money drives the more valuable money out of circulation.

[33] *Niles Register*, July 16, 1842, Vol. 62, p. 320.

$650,000. It was set up at $50., and the bidding went on till it was finally knocked down for $7,070."[34]

December 29, 1842, a month after the banks had resumed specie payment, New Orleans was still suffering from an inadequacy of sound currency. By January 3, 1843, eight banks—the Bank of Louisiana, the Gas, the Mechanics and Traders', the City, the Commercial, the Louisiana State, the Carrollton, and the Canal Bank, had resumed payment; the Citizens', the Consolidated, the Improvement, the Exchange, the Bank of Orleans, and the Atchafalaya Bank were still suspended, and the notes of these banks were at a discount of from 15 to 75 per cent.[35] Said Governor Mouton of the situation: "Never have our banks been in a stronger position, and yet, owing to the total want of the first element of prosperity—confidence—never has our community suffered so grievously from pecuniary embarrassment."[36]

In 1845 the enemies of the banks again took matters into their own hands by engrafting upon the constitution of that year a provision that forbade the creation, renewal, or extension of any corporate body with banking or discounting privileges.[37]

The very opposite of the effect desired by the enemies of the banks resulted from this provision of the constitution. A banking monopoly was created, and the monopoly "became more and more consolidated with the lapse of time."[38] Moreover, since the

[34] *Ibid.*
[35] *The Daily Picayune*, January 3, 1843.
[36] Message of Governor Mouton, January 28, 1843.
[37] Article 122.
[38] "Speech of James Robb, Esq.," *DeBow's Review*, Vol. XI, July, 1851, p. 78.

amount of their capital was fixed by their original charters, the banks whose charters still had some time to run were unable to absorb the amount of capital taken away by the expiration of the charters of the other banks. Capital decreased from $20,929,000 in 1843 to $12,201,000 in 1852.[39] Interest rates rose to 8 and 10 per cent.[40] In 1850 only five commercial banks were doing business in the whole state.[41]

Commerce suffered greatly under this system. Strong as they were, the banks were too restricted by the constitution of 1845 to afford adequate banking facilities to business. The Commercial Bulletin eloquently summarized the situation:

> "And what is the consequence of this miserably restrictive system? We are daily losing a trade which naturally belongs to us, which is making others rich at our cost, and which is exhausting our resources, and cramping our energies. Our country friends send their produce to us, but they do not buy of us. This last summer, New York, Boston, and other Northern cities were filled with Southern country merchants, buying goods in Northern markets, because they could be accommodated with the credit they required, and which they could not obtain in New Orleans . . . The evil has been felt to an injurious degree; not merely policy and expediency, but absolute necessity demands a change . . . The effete, corrupt, and corrupting banking system of past days is to be shunned and avoided, as we would a shoal or rock upon which we had once stranded. Let us have all the required checks, limits, and restraints to prevent abuse and the perversion of a blessing into a curse—but a safe, con-

[39]Report of the U. S. Comptroller of Currency, 1876, p. 113.

[40]"Banking Capital in New Orleans," *Bankers' Magazine*, Vol. VII, Dec. 1852, p. 468.

[41]Report of the U. S. Comptroller, 1876, p.cxiii.

servative, popular banking system is what New Orleans requires as an essential auxiliary to her prosperity."[42]

In 1853 a new constitution was adopted to make possible the creation of a banking system that would supply the needs of the state. Under this constitution bank corporations could be created by special acts or formed under general laws. In both cases the legislature was to provide for the registry of all currency and to "require ample security for the redemption of the same in specie."[43]

Under this constitution the state was not to "subscribe for the stock of, nor make a loan to, nor pledge its faith for the benefit of any corporation or joint stock company, created or established for banking purposes."[44] In no case could the legislature sanction in any way the suspension of specie payment on the part of a bank.[45] Bill holders of insolvent banks were given priority claims over all other debts.[46]

In January, 1853, the first legislature under the constitution of 1852 passed the free banking law. Under this law any one or more persons were permitted "to transact the business of banking in the State," and to establish offices of discount, deposit, and circulation.[47] Five or more persons could incorporate a bank, the capital of which was to be at least $100,000, and the charter of which was to run for a period not exceeding twenty years.[48]

[42]"Banking Capital in New Orleans," *Bankers' Magazine*, Vol. II, December, 1852, p. 469.
[43]Article 118.
[44]Article 108.
[45]Article 119.
[46]Article 120.
[47]Section 275.
[48]Section 276.

The banks were authorized to "hold, receive, purchase and convey all or any property, real and personal, as may be indispensable to the objects of the association . . . They shall not have the privilege of holding any real estate longer than five years, except such as is necessary for the transaction of their business."[49]

All bank stock was to be paid in full in specie within twelve months of the subscription, and no loan was to be made by any bank on a pledge of its own stock.[50] Shares in the bank were to be deemed personal property and transferable. No stockholder was to be held liable for his bank's debts "for a greater sum than the amount of his shares."[51]

The auditor of public accounts was to "cause to be engraved and printed" circulating notes of different demoninations, not less than five dollars each."[52] The auditor was to distribute to the banks circulating notes in blank equal in amount to the bonds of the United States, of the state of Louisiana, or of the consolidated debt of the city of New Orleans deposited with him by the banks.[53] These stocks were to be always equivalent to a six per cent stock and were to be receivable at not more than their par value.[54]

In addition to the security against note issues, every bank or banker who did business under this act was required to have on hand at all times, in

[49]Section 277.
[50]Section 281.
[51]Section 282.
[52]Section 285.
[53]Section 286. It should be noted that here Louisiana changed the principle of her note issues, adopting the currency principle for the free banks already in use by Massachusetts and the Indiana State Bank.
[54]*Ibid.*

specie, an amount equal to one-third of all liabilities, and two-thirds in specie funds, bills of exchange, or paper maturing within ninety days.[55]

"Every banker and banking company out of the city of New Orleans doing business under this act" was required to keep an office or designate an agent for the redemption of the circulation at New Orleans.[56]

The board of currency was to supervise the execution of the act.[57] It was empowered to examine the banks at any time it deemed necessary and to require from the banks weekly statements.[58]

In 1855 this law was rewritten with no change except in phraseology; and with the passage of this law what is commonly called the Louisiana Banking System, was complete. No fundamental change was made in the system until the passage of the National Banking Act of 1863, and the only change of any importance was that made in 1861 by the act forbidding banks to issue currency in excess of three-fourths of their capital.

The Louisiana system has been universally admired. It has also been copied, in particular by Massachusetts and the federal government. Both imitations were, in the main, the result of the labors of one man, Mr. Samuel Hooper, a Boston merchant. After he was elected to the legislature of Massachusetts, Mr. Hooper devoted all his energies to the passage of a specie reserve requirement similar to that of Louisiana. He advocated a reserve of 20 per cent but was

[55]Section 300.
[56]Section 302.
[57]Section 303.
[58]Section 305.

forced to content himself with a requirement of 15 per cent.

By 1860 Mr. Hooper had become convinced, after observing the operation of the Massachusetts law, that even the 20 per cent requirement he had formerly recommended was not large enough; and in support of his belief he published a pamphlet on currency and specie in which he highly praised the Louisiana system and attributed its success to its large specie reserve requirement. In 1862 Mr. Hooper was a member of Congress and introduced a bill that became the foundation of the national banking system.

> "It is this bill with which any study of the national banking system has to do, for although the law which was passed the next February after this was known as the Sherman act, it was in fact the Hooper bill with a few changes."[59]

The Louisiana sysem has been widely praised and generally copied; it has been little criticized. Later writers have, almost without exception, regarded the composite of the laws of 1842, 1853, and 1855 as the Ark of the Covenant; and for a genuine criticism we are forced to rely on the judgments of the contemporaries of the system. Of these critics the best were John Amory Lowell, who in 1860 wrote a pamphlet in reply to that of Mr. Samuel Hooper, and the anonymous reviewer of these two pamphlets in the Bankers' Magazine of May, 1860.

Mr. Hooper based his statement that increased specie reserves increased accommodations and was not expensive upon the following principles. If, he

[59]Davis, A. M.: *The Origin of the National Banking System*, p. 56: National Monetary Commission.

says, the banks of one community increase their loans without restrictions business for a time becomes prosperous and prices rise. This rise of prices increases importations, which in turn bring about exportation of specie. A balance of imports and exports is finally brought about, but the banks are weakened in their ability to make loans because of the small amount of specie which forms the base of these notes. On the other hand if the banks of a community require a high specie reserve, prices will, for a time, be lowered, and exports will be encouraged. This lowering in price and increase in exports bring increased specie, and therefore increase the loaning power of the banks. The community's exports and imports will again be equal, but this time a larger amount of specie will be on hand to form the base of an increase of loans. Because of this specie the banks will be much stronger, and confidence much greater.

Mr. Hooper said experience had taught that, in this country, we could not depend upon agreements between banks. Only the strong arm of the state, as in Louisiana, could compel the banks to follow a course which would bring about large deposits of specie with safety and confidence. It was to this principle alone that he attributed the large amount of specie in the New Orleans banks which enabled them to withstand the panic of 1857 and keep their community in a prosperous condition.

Since Mr. Hooper had said that specie could be augmented only by diminishing loans, his argument resolved itself, as the reviewer in the *Bankers' Magazine* pointed out, into the following "puzzling syllogism:

"A contraction of loans increases specie.

An increase of specie produces an expansion of loans.

Therefore, a contraction of loans produces an expansion of loans."[60]

Continuing the discussion, the reviewer accounts for the large dividends and large loans of the New Orleans banks by showing that these were due to the concentration of capital from the South and West and from abroad; the large cash deposits consequent upon the concentration of wealth in a few hands under a slave economy; the generally profitable character of business in such a locality, favoring rapid accumulation; and "the agency of cotton, the only local commodity—not itself money—which finds a universal market, and attracts capital from all parts of the civilized world."[61] Moreover, "besides the gratuitous use of foreign capital, they (the New Orleans Banks) possess in the management of exchanges, called for by the peculiar nature of the trade of that locality, a source of enormous profits;" so that it is not surprising that they divide 10 or 12 per cent. on their very limited capital, but rather that their dividends are so moderate."[62]

Summarizing, we can say that the success of the Louisiana Banking System was not so much the reward of virtue, however great, as it was the natural result of the working of the general economy peculiar to the state. Of this economy the banks were certainly a great part, but they did not affect it so much as they were affected by it.

[60] "Banks, Currency, and the Usury Laws," *Bankers' Magazine,* Vol. XI, May, 1860, p. 834.
[61] *Ibid.,* p. 835.
[62] *Ibid.,* p. 837.

CHAPTER VII

THE WAR AND ITS AFTERMATH (1860-1882)

IN 1860 NEW ORLEANS was one of the most prosperous cities in America. In that year, when the value of her commerce was $128,801,128,[1] she reached the summit of her prosperity. This prosperity was reflected in the condition of her banks, which critics are agreed were the safest and soundest in the country, one writer going so far as to say that they were "overflowing with gold." March 18, 1861, the New Orleans banks held $17,636,356 in specie and $22,751,000 in deposits, and their circulation amounted to $8,175,000.[2]

As long as they could, the New Orleans banks held out against the pressure of public sentiment urging them to accept Confederate notes as evidence of their sympathy with the Southern cause. On September 16, 1861, however, they yielded. Some of the banks did not suspend immediately, but shortly after, in obedience to a proclamation by the governor,[3] they all ceased to pay out specie. Specie was hoarded; and the Confederate notes, together with the scrip the city issued at this time, soon depreciated and drove the bank notes of the New Orleans banks out of circulation.

[1] *Internal Commerce of U. S.*, p. 377: Treasury Dept.

[2] *Times Picayune*, March 18, 1861.

[3] "Bank Items," *Bankers' Magazine*, Vol. XVI, Nov., 1861, p. 393. This step was necessary, said the governor, in order to maintain the credit of the $100,000,000 of Treasury notes issued by the Confederate government to supply the means for carrying on the war.

Whether they liked it or not, the banks continued to support the Southern cause. They contributed a large amount to the defense fund of New Orleans and later sent some $4,000,000 in specie into the Confederacy, to prevent its falling into the enemy's hands,[4] which the Confederate government simply confiscated and used to carry on the war. Later, however, General Butler permitted the banks to transact business upon the basis of the absent coin, "just as though it was in their own vaults."[5]

May 1, 1862, General Butler took possession of New Orleans. On the same day he issued his first proclamation to the city. This proclamation contained the following order:

> "The circulation of Confederate bonds, evidences of debt (except notes in the similitude of bank-notes) issued by the Confederate States, or scrip, or any trade in the same, is forbidden. It has been represented to the commanding general by the civil authorities that these Confederate notes, in the form of bank notes, in a great measure, are the only substitutes for money which the people have been allowed to have, and that great distress would ensue among the poorer classes if the circulation of such notes should be suppressed. Such circulation, therefore, will be permitted so long as any one will be inconsiderate enough to receive them, until further orders."[6]

May 16 he ordered that the circulation of Confederate money and New Orleans scrip cease after May 27.

[4]Rightor, Henry: *History of New Orleans*, p. 600.
[5]*Ibid.*
[6]Parton, James: *General Butler in N. O.*, p. 294.

May 18 the banks all published notices similar to the following one issued by the Union Bank:

"Union Bank

New Orleans, La., May 17, 1862.

"Notice.—All persons having deposits or Confederate notes in this bank are notified to withdraw them prior to the 27th inst. Such balances as may not be withdrawn will be considered at the risk of the owners.

"George A. Freret, *Cashier.*"[7]

May 19 General Butler issued his famous "General Order No. 30."[8] Out of compassion for the "great distress, privation, suffering, hunger and even starvation that had been brought upon the people of New Orleans and vicinage by the course taken by the banks and dealers in currency," wrote the general, he felt "obliged to take measures to provide, as far as may be, for the relief of the citizens, so that the loss may fall, in part, at least, on those who have caused and ought to bear it." He therefore

"Ordered: I. That the several incorporated banks pay out no more Confederate notes to their depositors or creditors, but that all deposits be paid in the bills of the banks, United States treasury notes, gold or silver.

"II. That all private bankers, receiving deposits, pay out to their depositors only the current bills of city banks, or United States treasury notes, gold or silver."[9]

June 6 General Butler issued Order No. 40:

"New Orleans, June 6, 1862.

"Any person who has in his possession, or subject to his control, any property of any kind or description

[7]Parton, James: *General Butler in New Orleans*, p. 417.
[8]*War of the Rebellion, Official Records, Series IV*, Vol. 1, p. 437.
[9]*Ibid.*

> whatever, of the so-called Confederate States, or who has secreted or concealed, or sided in the concealment of such property, who shall not, within three days from the publication of this order, give full information of the same, in writing, at the headquarters of the military commandant, in the Custom-House, to the assistant military commandant, Godfrey Weitzel, shall be liable to imprisonment and to have his property confiscated."[10]

July 11, the Citizens' Bank, in obedience to this order, informed the general "that there was to the credit of the treasurer of the Confederate States in this bank the sum of $219,090.94; and also on special account, the farther sum of $12,465," and that holding a larger amount in the notes of the Confederate treasury, it was setting aside "the equivalent amount in said treasury notes to offset the above stated amount." The bank also mentioned the deposits of the "Conf. States District Court" and the deposits of various "Confederate States Receivers." All these deposits, said the bank, had been "made in the currency of the Confederate government by its appointed officers." The last item mentioned by the bank was the assets of the Bank of Kentucky, which had been held by the Citizens' Bank at the time they were sequestrated by the Confederate government.

The deposits, said the Citizens' Bank, had been made in the currency of the Confederate government by its appointed officers. The bank therefore appealed to "General Butler's sense of equity and justice to allow these deposits to be paid to whom it

[10] *Ibid.*, p. 428.

may concern in the same currency in which they were received." The sequestrated assets of the Kentucky Bank it asked to be allowed to refund to the owners.[11]

In reply General Butler refused to recognize "any of the sequestrations of the supposed Confederate States" and directed that the accounts with the Bank of Kentucky be made up and all its property paid over and delivered "as if such attempted confiscation had never been made." All the items but that to the credit of the Confederate States were to be paid to his order "for the United States, in gold, silver, or United States treasury notes at once." The item of $219,090.94 to the credit of the Confederate States he would refer to his home government for adjudication; and "in the meantime the bank must hold, as a special deposit, the amount of Confederate treasury notes above mentioned, and a like amount of bullion to await the decision."[12]

All scrip was to be redeemed in the same way. The resulting problem of supplying the need for small currency the general solved by ordering

> "IV. That the savings banks pay to their depositors or creditors only gold, silver, or United States treasury notes, current bills of city banks, or their own bills, to an amount not exceeding one-third of their deposits and of denomination not less than one dollar, which they are authorized to issue and for the redemption of which their assets shall be held liable.
>
> "The incorporated banks are authorized to issue bills of a less denomination than five dollars, but not less than one dollar, anything in their charters to the contrary notwithstanding, and are authorized to receive

[11] *Ibid.*, p. 428.
[12] *Ibid.*, p. 430.

> Confederate notes for any of their bills until the 27th day of May inst."[13]

To the Bank of Louisiana's request that he examine the bank and see for himself that it was unable to meet his demands, the general replied that not having anything to do with the "mismanagement, or the contrary of the bank," he could not accede. He gave the directors of the bank six hours in which to inform him whether they intended to act in accordance with his order" upon their corporate and individual peril."[14] Replied the bank to General Butler:

> ". . . The board of directors were immediately summoned to a special meeting; and as you leave no alternative but compliance with your mandate, they will conform to Order No. 30."[15]

The sum of $245,760 in Confederate funds was given up by the bank. This amount General Butler sent to Mr. Chase "to make a fund upon which those whose property has been confiscated may have claim." The item of $219,090.94 had not been decided by the time General Butler left the department.[16]

June 17 General Butler sent to Secretary Chase a draft on the Bank of Louisiana for 3000 pounds, which he said had been deposited in that bank after

[13] *Ibid.* In 1859 the "Report of the Joint Committee of the Louisiana Legislature on banks and banking" recommended the "prohibition, by all lawful means, of the circulation of bank notes under twenty dollars." ("Bank Statistics," *Bankers' Magazine,* Vol. VIII, April, 1859, pp. 808-809.) This recommendation was made out of a desire to protect the working man in time of panic from having to sacrifice his wages to note speculators. Most laborers did not receive as much as twenty dollars a week, and, having to live "from hand to mouth," seldom had in their possession more than their wages for a week. If the minimum denomination of bank notes was made $20., they could seldom have any money other than specie in their possession and would not be compelled during a panic to discount their money to "lynx-eyed speculators."

[14] Parton, James: *General Butler in New Orleans,* p. 422.

[15] *Ibid.*

[16] *Ibid.*, p. 431.

having been collected by the courts, and therefore belonged to the United States.[17]

In August General Butler imposed upon the banks an assessment equal to the amount they had invested in the peace bonds issued by the city of New Orleans. The fine was made payable in four equal installments, and the general used the money to feed the large number of negroes who had taken refuge in New Orleans, and who remained there for the duration of the war.[18]

After two years of this sort of treatment from General Butler and General Banks,[19] the Louisiana banking system was in bad condition. Weakened by the loss of the $4,000,000 of specie that had been confiscated by the Confederate government, by the losses consequent upon the payment of their own notes and of specie to depositors of Confederate currency, by forced gifts, and by the complete stagnation of business, the system was in 1863 but a shadow of what it had been before the Union occupation of New Orleans. By February 25, 1863, the date of the passage of the National Bank Act, seven of New Orleans' thirteen banks had closed their doors.[20]

By the end of the Civil War the commerce of New Orleans had decreased to the vanishing point. Measured in dollars, the decrease was alarming enough; measured in volume, it was incredible. In 1862 the receipts at the New Orleans port were the smallest since Louisiana had been purchased from France. Trade increased only slightly during the next three

[17] *War of the Rebellion, Official Records*, Series III, Vol. II, p. 162.
[18] Rightor, Henry: *History of New Orleans*, p. 431.
[19] General Banks succeeded General Butler Nov. 9, 1862.
[20] House Document 3704, Vol. 76. For national banks before 1882, see pp. 114-115.

years; and in 1865 what business there was, was conducted almost entirely by foreigners, most of the New Orleans merchants having left the city. Moreover, in 1865 New Orleans was not even self supporting, and the military authorities were compelled to feed a large part of the population.

Banks continued to share in this loss, and in 1865 their condition was only slightly better than in 1863. This condition was reflected in the stock market. September 1, 1865, bank stocks were quoted as follows:[21] (Par value, $100.)

Louisiana Bank	15
Mechanics and Traders' Bank	29
Canal Bank ($50. par)	42
Union Bank	19
Citizens' Bank	76
Bank of New Orleans	16
Southern Bank	63
Merchants' Bank	8
Crescent City Bank	19
Bank of America	67
First National Bank	99

Inevitably people lost confidence in the banks; and it was generally believed in 1865 that the legislature of 1866 would compel the liquidation of the weak banks. Anticipating this, the banks endeavored to improve their condition by reducing their capital. After this reduction the capitalization of the banks of New Orleans amounted to $7,671,700.[22]

This action proved very effective, and aided by the beginning of a recovery in business the banks

[21] "The Money Market of N. O. and the Southwest," *Bankers' Magazine*, Vol. XXI, Nov., 1866, p. 375.

[22] House Document 3704, Vol. 76. In 1861 there had been 12 banks with a combined capital of $24,634,000.

were able to improve their condition considerably during the following year. September 1, 1866, bank stocks were quoted as follows:[28] (Par value, $100.)

Louisiana State Bank	28
Mechanics and Traders' Bank	59
Canal Bank ($50. par)	58
Union Bank	53
Citizens' Bank	156
Bank of New Orleans	40
Southern Bank	94
Merchants' Bank	26
Crescent City Bank	42
Bank of America	137
First National Bank	125

Despite this improvement New Orleans was ill prepared to meet the panic of 1873. When it came, New Orleans was suffering from a serious decline in commerce, a decline that had begun in 1870 and become greater with each succeeding year as the railroads continued to tap the trade territory of the city. Even before the Civil War New Orleans had experienced a decrease in her trade territory, but the increase in trade from the remaining territory was more than enough to offset this loss. However, when in 1870 the volume of trade from the remaining trade territory began to decrease, New Orleans became deeply concerned. To solve the problem, New Orleans had to have railroads—and she could not get them. In the eyes of the railroads the river had become too unnavigable for New Orleans to remain long an important shipping point; they therefore rejected the state's offers of bonds, financial assistance, and public lands.

[28] "The Money Market of N. O. and the Southwest," *Bankers' Magazine*, Vol. XXI, Nov., 1866, p. 375.

In 1874, however, came the turning point for New Orleans. In that year Congress provided for the improvement of river transportation. Captain Eads was given a contract to try his jetty plan. By the end of the first year of his experiment, he had deepened the river some six feet; by 1879 he had given the center of the channel a depth of 30 feet, and the largest vessels afloat could navigate the river in safety. Deep water enabled New Orleans to reestablish her position as an important trading center, and the railroad companies became anxious to put down lines to the city.

Not only did railroads change the volume of trade; they also changed the very character of business. Much of the trade was brought to the city by rail instead of by water; and still more was mere transit goods, not handled by the city at all; and the city's percentage of profit on the goods was not as large as it had been before the advent of the railroads. Moreover, most of the new business was done through exchanges and the board of trade.

New Orleans experienced another panic in 1879. The panic was local, but none the less severe. In 1877 the "carpet bag" rule of Louisiana had come to an end, and the incoming government had been left with the problem of paying off the state debts which had been funded in the consols of 1874. In 1877 and in 1878 Louisiana had defaulted interest payment on these consols; and by 1879, when the constitutional convention met, there was strong sentiment in favor of outright repudiation. Fearing that the convention would repudiate the consols, depositors of banks thought to own large amounts

of these bonds took fright and started runs on the banks. Starting with the Southern Bank, the runs soon became general, and all the banks were forced to suspend. Three banks, the Southern, the Merchants and Mechanics', and the New Orleans Savings Institution, were liquidated; and depositors were paid from 15 to 50 per cent on their money.

In 1864 the first national bank was organized in New Orleans. This bank, called the First National Bank of New Orleans, was capitalized at $500,000. From the beginning it was successful; and at a time when the stocks of all the other banks were quoted at below par, its stock continued to be quoted at its face value. In 1866 two more national banks, the City National and the Louisiana National, were organized, the former with a capital of $300,000 and the latter with a capital of $1,000,000.

In 1867 the heavy defalcations of its president ruined the First National Bank; and the comptroller of the currency ordered it closed. In the excitement caused by the closing of this bank, runs set in on the City National and the Louisiana National. Both these banks were in good condition, but the runs so seriously crippled the City National that it was not able to resume until 1868. The large capital of the Louisiana National effectively protected it from serious injury from the runs. The First National Bank never reopened.

Between 1870 and 1872 five national banks, the New Orleans, the Union, the Germania,[24] the New Orleans National Banking Association, and the Mutual National Bank, were organized. In 1872 the

[24]This was the reorganized Citizens' Bank.

combined capital of these banks amounted to $4,850,000; surplus, to $220,000; and undivided profits, to $311,000.[25] Their combined note circulation amounted to $3,549,000.[26]

By 1882 it was generally felt that a change was necessary in the state banking system. Not only were the state banks suffering from the competition of the national banks, but, on account of the legal requirement of $100,000 capital for the organization of state banks, the smaller towns were unable to get state banking accommodations. To relieve this situation the legislature in 1882 passed a bill devised to make possible an increase in the number of small town banks. It is with this law that the last period of Louisiana state banking begins; this period will be treated in Chapter IX.

Since the state debt and the controversies over its settlement had a tremendous influence on banking and politics from 1874 to 1884, this problem will be considered in the next chapter.

[25]Report of the U. S. Comptroller of Currency, 1873.
[26]The Federal government had taxed state notes out of existence.

CHAPTER VIII

THE STATE DEBT AND REPUDIATION

BY 1842 LOUISIANA had issued $24,450,000 of bonds on behalf of the banks. The following table shows the amount issued for each bank and the date of issue:[1]

1824	The Bank of Louisiana	$ 2,400,000
1828	The Consolidated Assn. of Planters	2,500,000
1832	The Union Bank	7,000,000
1833	The Merchants and Mechanics' Bank	150,000
1835	N. O. Gas-Light and Banking Company	150,000
1836	The Citizens' Bank	12,000,000
1836	The Citizens' Bank	250,000
	Total	$24,450,000

Of this total of $24,450,000, $1,200,000 had been retired by the Bank of Louisiana, and only $7,000,000 of the bonds issued for the Citizen's Bank were sold.[3] The total state debt incurred on behalf of banks was, therefore, in 1842, $18,250,000.

By 1848, $5,854,616.13 of the bonds issued on behalf of the banks had been retired through liquidations of the mortgages put up by the various banks

[1]Charters of the various banks.

[2]Act No. 22, Section 19, as amended by Act No. 90, Section 7, Louisiana Legislature, 1842. This amount was issued in payment of a loan made by the Citizens' Bank to the state.

[3]Consolidated Association of Planters v. State, 5 *La. Ann.* 44.

as a guarantee of the bonds issued for them by the state. The remainder had been funded as follows:[4]

The Union Bank	$3,234,000.00
The Consolidated Assn. of Planters	1,923,775.00
The Citizens' Bank	7,237,608.87
Total	$12,395,383.87

In 1866 the legislature extended to 1876 the date of payment of the final series of bonds issued for the Consolidated Association of Planters.

When the legislature passed the funding act in 1874, it created a mystery that puzzled the courts of the state for the next fifteen years; viz., did the state repudiate its guarantee of the bank bonds? To understand this question, it is necessary to know the history of the state's disposition of the entire indebtedness.

From 1865 to 1877 Louisiana was governed by the carpet baggers, whose rule was one of great extravagance. Taxpayers, groaning under a tax rate that had increased from 37½ cents in 1865 to 75 cents in 1869,[5] attempted to check this extravagance by having a constitutional amendment passed limiting the amount of the state debt to $25,000,000. In spite of this amendment, the debt continued to increase—and with it the tax rate, which in 1871 amounted to $2.15.[6] In New Orleans a committee of property owners and taxpayers was formed to put a stop to the state's extravagance. In 1871 this committee estimated that the constitutional limit of

[4] Auditor's Report, Jan. 1, 1848, p. 16.
[5] *Bankers' Magazine*, 1872, Vol. 26, p. 26.
[6] *Ibid.*

$25,000,000 had been exceeded by $15,000,000,[7] and published in three languages, a circular containing figures to prove their contention. In this circular all bankers, brokers, and prospective bond holders were warned that the taxpayers would not pay taxes to discharge any debt in excess of the constitutional limit.[8]

This circular evidently had its effect, for Governor Warmoth was soon complaining that it was "an act of madness, inspired by a wily and cunning rival for the Texas trade, and the political prejudices of the opposition were toyed with to influence the people to sign it." It was "wrong in principle and false in fact," said the governor, and its effect was to stop negotiations for bonds which he had on foot, and to break down the credit of the state.[9]

In 1873 Governor Warmoth gave way to another carpet bagger, William P. Kellogg. The new administration was faced with the problem of reducing the state debt, interest on which had been defaulted in 1873. This debt, according to the state auditor, amounted to $24,356,338.72 and included the following items:

1. Bonds outstanding January 1, 1874	$22,433,800.00
2. Auditor's warrants (old)	1,565,702.08
3. Auditor's warrants (new)	225,051.22
4. Certificates of indebtedness	131,785.42
Total	$24,356,338.72

[7] Jan. 17, 1872 the New Orleans Republic quoted the state auditor as stating that the debt amounted to more than $41,000,000.

[8] Porter, R. P.: "State Debts and Repudiation," *International Review*, Nov., 1880, p. 581.

[9] *Ibid.*

In a statement attached to his report the auditor listed as "miscellaneous debts" the sum of $4,803,083.33. "It is obvious that it (the plan of the auditor and the legislature) excluded the bonds loaned to the Citizens' Bank and to the Consolidated Association of Planters, which amounted in round numbers to the sum above stated, as a debt for which the state was *contingently* liable."[11]

The debt was scaled down 40 per cent, and the $15,000,000 of consols bearing 7 per cent interest were issued to be used by the board of liquidation in funding the debt. Section 5 of the act levied a tax of 5½ mills on all real and personal property, the proceeds of this tax to be used to pay interest on the consols and provide a sinking fund for their retirement.[12]

This act having received the sanction of a constitutional amendment, the board of liquidation began its work of funding the bonds. The board soon discovered, however, that many of the bonds were of doubtful legality; and on the recommendation of the board the governor called a special session of the legislature to provide further rules for the funding of the state debt. The legislature provided that the board of liquidation fund the questioned bonds only after their legality had been certified to by the courts.[13]

Two cases may be mentioned to show the nature of the obligations held by the courts to be not fundable. In the *State ex rel. T. A. Bartlett v. Board of Liquidation.*[14] the plaintiff, a tax collector, asked the

[11]Hope and Co. v. Board of Liquidation, 41 *La. Ann.* 647.
[12]Act No. 5, Louisiana Legislature, 1874.
[13]Act No. 11, Louisiana Legislature, 1875.
[14]31 *La. Ann.* 273.

court's approval as fundable of a warrant given him by the treasurer of the state. This warrant, said the plaintiff, had been given him as a refund for the amount he had paid the state in excess of the state's share of taxes collected. The court held that although an act passed by the legislature in 1871 had provided a fund for the payment of such claims as the plaintiff's the plaintiff's claim in this instance being based upon no other evidence than his own word and that of the treasurer, was "too general" and was, therefore, not fundable. In *Mutual Insurance Co. v. Board of Liquidation*[15] the plaintiff presented for the court's approval a bond issued by the state on the income from the assets of the Free School Fund. The Free School Fund had been abolished in 1872, and its assets transferred to the "Redemption Fund of Floating Debts." The state had issued bonds on the income from these assets, and it was one of these bonds that the plaintiff asked to have approved as fundable. Stating that the transfer of the assets of the Free School Fund had been "an act of spoliation" and contrary to both a state and national statute, the court held the bond not fundable.

The constitutional convention of 1879 reduced the interest on the consols to 2 per cent for five years (beginning with 1880), 3 per cent for 15 years, and 4 per cent thereafter. It also reduced the rate of the tax for debt purposes from 5½ mills to 3 mills.[16]

The majority of the holders of the consols were unwilling to accept the reduction in the interest. By the Eleventh Amendment to the Constitution of the

[15] 31 *La. Ann.* 175.
[16] Constitution of 1879, Article 1.

United States, individuals could not sue a state. Bond holders living in New York and New Hampshire assigned their bonds to their states for collection, and the attorney generals of the two states then sued the state of Louisiana for the interest on these bonds. The Supreme Court held that since the states were only acting as agents for individuals, the Eleventh Amendment removed the suit from the court's jurisdiction.[17]

In 1882 the legislature of Louisiana agreed to a proposal of the bond holders that the state pay 2 per cent interest on the consols for five years and 4 per cent thereafter. This agreement was made an amendment to the constitution and approved by the people in May, 1884.

In his report to the legislature in 1874 the auditor did not include in his estimate of the state debt the bank bonds still outstanding, which in 1874 were as follows:

Citizens' Bank	$4,296,633.33
Consolidated Assn. of Planters	506,450.00
Total	$4,803,083.33

The bonds for the Consolidated Association of Planters were funded in 1878. October 1, 1877, the board of liquidation refused to fund the bonds issued for the Consolidated Association of Planters on the ground that they were not a part of the state debt as listed by the auditor in 1874. This ruling was reversed by the courts.[19] When the state took over the Consolidated Association of Planters in 1843, said the court, it made itself directly responsible for the

[17]New Hampshire v. Louisiana 108 *U. S.* 76:27 L. Ed. 656.
[19]Lesessier and Binder v. Board of Liquidation, 30 *La. Ann.* 11.

bonds. The bonds were, therefore, a legal part of the debt of the state. Moreover, since the addition of the bank's bonds to the funded debt of 1874 would not increase the amount of consols beyond the $15,000,000 limit set by the funding act of 1874, the bonds could be funded without violating the funding act of 1874.

In 1874 the total debt exclusive of bank bonds amounted to $24,356,338.72. By 1914, $23,437,639.51 of certificates of indebtedness had been presented for funding; of this amount the courts had held $3,191,601.76 "not fundable," so that $20,246,037.75 had been funded. The entire debt, with the exception of fractional parts of certificates of indebtedness (which were funded at par) had been funded on the basis of .60 on the dollar, and $12,378,621.87 of consols had been issued.[20]

By 1880 the state was $1,381,299.63 in arrears in interest payments on the consols. To pay this interest the state issued non interest-bearing "baby" bonds. By 1914, $470,570 of the "baby" bonds had been paid off.[21] The state repudiated the balance of $910,727.63.[22]

By January 1, 1878, $23,437,639.51 in bonds and certificates of indebtedness had been presented to the

[20]Auditor's Report, 1914, p. 78.

[21]*Ibid.*

[22]In 1913 the attorney general of New York ruled otherwise. The New York official was called upon to settle this question by the various savings banks of the state, which had agreed to purchase a 1914 bond issue of the state of Louisiana. By the laws of the state, New York banks were forbidden to invest in the bonds of any government that had ever been guilty of repudiating a bond issue; and the New York banks asked the attorney general for a ruling on the question of the unretired $910,729.63 of "baby" bonds issued in 1880. The attorney general ruled that since these bonds had been secured by taxes delinquent in 1878, and Louisiana had pledged itself to do no more than apply these taxes as collected to the payment of these bonds, the state had not violated any pledge. ("Louisiana Debt," *Financial Chronicle*, No. 36, p. 236.)

board of liquidation for funding. Of this amount the board had listed $18,799,634.46 as fundable and $4,638,115.05 not fundable.[23]

This list was later revised by the courts.

The bonds for the Citizens' Bank were held by Hope and Co., of Amsterdam. In 1880 this company took stock in the Citizens' Bank to an amount equal to the defaulted interest of its bonds.[24] In 1889 Hope and Co., began its efforts to have these bonds funded. No decision was given by the board on the fundability of the bonds until 1891, when it declared the bonds not fundable on the ground that they were not a part of the state debt in 1874. The court reversed this ruling,[25] holding the bonds fundable on the following grounds: first, that the funding act of 1874 clearly provided that all legal obligations of the state were fundable; second, that the bonds for the Citizens' Bank were unquestionably legal obligations of the state; and third, that the funding of these bonds for the Citizens' Bank would not increase the state debt beyond the constitutional limit of $15,000,000.

The court therefore instructed the board of liquidation to fund the bonds for the Citizens' Bank in accordance with the funding act of 1874 and the amendment thereto; that is, to issue consols to the amount of 60 per cent of the original issue. The company was also awarded interest on the consols at the rate of 7 per cent for six years, 2 per cent for five years, and 4 per cent from 1885 to the date of funding.

[23]Report of Board of Liquidation, Jan. 1, 1878, pp. 26-27.
[24]Hope and Co. v. Board of Liquidation, 43 *La. Ann.* 741.
[25]*Ibid.*

From this total of interest and principal the board was to deduct the following items:

1.	Payments already made	$2,060,466.35
2.	Interest on the payments	Not given
3.	Amount already paid by bank on coupons	300,000.00
4.	Cash in bank's sinking fund for the retirement of bonds	85,000.00
5.	Amount of Hope and Co.'s stock in the Citizens' Bank	133,000.00
6.	Stockholders' mortgages guaranteeing the bonds	800,000.00

Hope and Co., requested a rehearing, but the court refused, and the bonds were not funded[26] until 1902.[27]

The following is a tabulation of the funding of the state debt:[28]

Amount of the state debt in 1874	$24,356,338.72
Amount presented for funding by 1914	23,437,639.51
Amount not fundable	3,191,601.75
Amount funded by 1914	20,246,037.75
Amount of bank bonds funded by 1914	446,102.00
Amount of consolidated bonds issued by 1914	12,378,621.87

[26]Hope and Co. v. Board of Liquidation, 43 *La. Ann.* 741.
[27]Hope and Co. v. Board of Liquidation. La. Reporter. 313.
[28]Report of Louisiana State Auditor, 1914, p. 78.

CHAPTER IX

1882-1930

BY 1882 LOUISIANA had made much progress in reconstruction. The "stormy days in Louisiana politics" had come to an end in 1876 and given way to comparative calm. The jetties were completed, and the largest steamers afloat could reach New Orleans in safety. The era of railroad building was well under way, and by 1882 four main trunk lines to New Orleans had been laid down.

Despite these gains the state was far from being well off. Property values in 1882 were some $90,000,000 greater than in 1876, but the state still ranked thirty-seventh in the United States in per capita wealth.[1] The amount of business had increased, but bank capital in the whole state amounted to only $5,158,000.[2] Moreover, much of what progress was being made was halted in 1882 by the great flood, the most damaging in the history of the state.

One of the main reasons for the long duration of the depression was the unsettled condition of the finances of the state. Governor Warmouth spoke truthfully when he declared in 1872 that the credit of the state was ruined; and in 1882 Louisiana was still suffering from what the New Orleans *Times-*

[1] *United States Census*, 1880, Vol. VII, quoted in *Times-Democrat*, September 7, 1884. In 1860 Louisiana had ranked second.
[2] United States Comptroller's Report, 1882.

Democrat called a "universal distrust," which had not "merely affected the credit and honor of the commonwealth, but . . . to a great extent, affected injuriously individual credit, prevented investment of foreign capital, and excluded immigration."

By far the greatest impediment to growth was the inadequacy of commercial facilities, a situation that was further complicated by the problem of an insufficient and inelastic currency. Both of these difficulties were, for the most part, what Henry J. Ford called the "baneful" results of the operation of the national banking system.

The system had achieved the objectives set for it by its proponents, which were to improve and extend the market for government bonds and to provide a safe national currency of uniform value,[3] and to this extent it was a success. Judged by the criterion implied by its title, it was a dispiriting failure: just as the Holy Roman Empire was neither holy nor Roman nor imperial, the national banking system was neither national nor banking nor systematic.[4]

The first and most obvious defect in the system was the small number of banking units. There was no provision in the national law for the opening of national bank branches, and the high capital requirement for the establishment of independent national banks[5] made it impossible for any but the larger and more prosperous communities to secure banks of their own.

[3]Report of the Monetary Commission of the Indianapolis Convention, p. 197.

[4]"This system was not founded on banking principles, but with the special idea of making a market for government bonds. . . The national banking system is national only in name." (Ford, Henry J.: "The Denationalized Banking System," *The Bankers' Magazine*, Vol. LIV, January, 1897, p. 67.

[5]$50,000. The Bank Act of 1864, Sec. 7.

Moreover, the business of what banks there were was rigidly confined to local fields of operation.

> "The courts have decided that under the law a bank cannot even arrange to have checks upon it cashed anywhere else. No matter how bank funds may congest in cities or in particular sections, there is no way by which the banks of those sections can extend their transactions to regions where there is a greater demand for banking facilities. A transfer of funds from place to place goes on, but it is by means of loans effected by banks whose local fields make such an active demand as to furnish two banking profits for the sake of obtaining the supply. The effect, according to Chairman Walker of the House currency committee, is to make the cost of loans and discounts in the South and West fully two per cent. above the normal rate."[6]

Not only did the law make almost impossible the creation of new banks; it also made impossible the furnishing of adequate supplies of currency. Under the system of note issues, a bank might "issue circulation not exceeding 90 per cent. of the par value of the bonds deposited." Each bank was required to deposit with the treasury a redemption fund of 5 per cent of its outstanding circulation; and the notes were secured by a first lien on all the assets of the bank, including the liability of the shareholders.[7]

This system unquestionably provided a "safe national currency of uniform value;" in other respects, however, it was unsatisfactory.

> "1. It presupposes a continuing issue of government bonds, when it ought to be the national policy to steadily reduce and ultimately to extinguish the debt of the United States.

[6]Ford, Henry J.: *op. cit.*, p. 68.
[7]The national bank law of 1874, Sec. 32.

"2. The investment in bonds diminishes the funds of the bank available for loans to its customers.

"3. Such a currency does not increase in volume with a temporary demand for more currency, nor decrease with the cessation of the demand."[8]

In the larger cities a mechanism of exchange was afforded by the clearing-house relations of the banks, by deposit currency; and the note-issuing functions of banks were, properly, "supplementary to the wholesale exchanges carried on by means of checks and drafts."[9] Those regions where the system of checks and drafts was least in use, and where, as a result, the note-issuing functions of banks were most valuable, were almost wholly without the benefits of a machinery of exchange. Over a large part of the South and Southwest, therefore, almost primitive conditions of barter prevailed. Payments were made in kind, for there was no money. Instead of going to a bank for funds, the farmer secured credit for goods at the country store or obtained supplies from the commission merchant who handled his crops, "submitting to charges at every step which cut a big hole in his profits at the best of times" and in bad times left him in debt.

The system was not changed for many years; and during these years "the efforts of the government, sustained by heavy taxation were exerted to diminish as much as possible the quantity of the one asset available for note emissions."[10]

In Louisiana, as in many other states, the "state" banking system was also a misnomer. Towns that

[8]Report of the Monetary Commission of the Indianapolis Convention, p. 45.
[9]"The first step in Currency Reform," *The Bankers' Magazine*, Vol. LIV, March, 1897, p. 375.
[10]Ford, Henry J.: *op. cit.*, p. 68.

were without national banks were also without state banks, being deprived of even this boon because of a state capital requirement even larger than that of the national law.[11] Moreover, only one state bank, the Citizens', was permitted by its charter to establish branches, and this bank was not strong enough to extend its operations.

In 1882 the Louisiana legislature attempted to remedy this condition. To make possible the creation of new banks, the legislature lowered the minimum capital requirements. The following is a statement of the new requirements:[12]

Cities of 2,000 population	$10,000
Cities of 2,000-4,000 population	15,000
Cities of 4,000-6,000 population	20,000
Cities of 6,000-10,000 population	25,000
Cities of 10,000-15,000 population	30,000
Cities of 15,000-25,000 population	50,000
Cities of more than 25,000 population	100,000

Despite their need of banks, communities were slow to avail themselves of the privilege granted them by this law, and not until 1887 were any new banks organized. This slowness in the transition from the credit system built up after the war to a credit system dependent upon banks was in large part the slowness characteristic of any change. Unquestionably, however, the flood of 1882 had a great deal to do with the delay, and the panic of 1884 had even more. In the last decade of the century banking progress was hampered mainly by the unsettled con-

[11] $100,000. Louisiana Laws, 1855, Sec. 2.
[12] Act No. 80, Louisiana Legislature, 1882.

dition of the currency already referred to. By 1899, fifty-six new state banks had been organized.[13]

In 1898 the constitutional convention created the office of state bank examiner. By the terms of the constitution, the examiner was required to examine the state banks at least twice each year and to perform any other duties prescribed by the legislature.[14]

This provision of the constitution was enacted into law in the same year. As amended in 1916, the law required the bank examiner to "report biennially to the Legislature at the commencement of each session:

> "1st. Such information in respect to banking associations and savings banks as in his judgment may be useful . . .
>
> "2nd. A statement of the banks, banking associations, and savings banks whose business has been closed during the two preceding years:
>
> "3rd. Such report shall be made and printed at least twenty (20) days before the day of each meeting of the General Assembly and a copy thereof shall be immediately transmitted to the governor, auditor, and treasurer of the state."[15]

Another amendment authorized the bank examiner, with the consent of the governor, to close any bank whose continued operation he deemed "unsafe, inexpedient, or hazardous."[16]

Act No. 45 of the legislature of 1902 established a reserve requirement for state banks. As amended by Act No. 91 of 1918, the law required that a cash

[13]First Report of the Louisiana Banking Department, 1899, p. XIV. The increase in banking capital was not large, only $3,796,000.

[14]Constitution of 1898, Article 194.

[15]Act No. 198, Louisiana Legislature, 1898, as amended by Act No. 187, 1916.

[16]Act No. 300, Section 1, Louisiana Legislature, 1910.

reserve of 20 per cent against demand deposits be kept, 4 per cent of this reserve to be in cash on hand, and the remaining amount to be deposited in reserve banks.

> "For the remainder of its liabilities for demand deposits there shall be kept on hand an amount equal thereto in lawful money of the United States or cash due from other banks or bills of exchange or discounted paper maturing not more than one year, or bonds, stocks, or securities of the United States or any of the states, or of the municipalities of corporations, public or private, thereof, or of the levee boards of the state of Louisiana, provided that the deposits made in the savings banks, or in the savings department of a bank doing general banking business, which are made on the condition that they may not be withdrawn except on notice, shall not be considered demand deposits within the meaning of this section."[17]

If the reserve of any bank falls below the required amount and remains so for ten days, the bank is not permitted to make further loans until the reserve has been replaced.[18]

Bank loans on real estate may not exceed 65 per cent of the value of the real estate, except in the case of savings banks and savings departments, which may lend up to 85 per cent of the value of the real estate.[19] No officer can lend the funds of his bank "to any corporation, the subscribed capital of which has not been paid up to the extent of fifty per cent, of which he may be an officer or in which he may be a stockholder, without adequate security to be

[17]Act No. 45, Section 5, Louisiana Legislature, 1902, as amended by Act No. 91, 1918.

[18]Act No. 179, Section 15, Louisiana Legislature, 1902.

[19]*Ibid.*, as amended by Act No. 184, 1916.

approved by the board of directors."[20] No bank is permitted to lend to one person more than 20 per cent of the capital and surplus of the bank.

In 1916 the minimum capital requirement was raised; at the same time it was required that 50 per cent of the capital stock be paid in before the bank opened for business and the remainder within 90 days.[21] The minimum was again raised in 1924.[22] The following are the capital requirements set by the law of 1924:

Towns of less than 3,000 population	$25,000
Towns of 3,000-30,000 population	50,000
Towns of more than 30,000 population	100,000

Banks already organized on the basis of the former capital requirements were not required to raise their capitalization.[23]

Every state bank is required to "set aside annually at least one-tenth of its annual net profits for the establishment of a surplus fund, until such time as the surplus fund shall be equal to at least twenty (20) per cent of its entire paid-up capital stock . . . The whole or any part of such surplus fund may be converted at any time into paid-up capital stock, but in that event such surplus fund shall be restored in the manner above provided for until it shall amount to at least twenty (20) per cent of the aggregate paid-up capital stock."[24]

In 1928 the Louisiana Legislature attempted to do away with the "loan shark" by passing a small loans

[20]Act No. 145, Section 1, Louisiana Legislature, 1910.
[21]Act No. 184, Section 28, Louisiana Legislature, 1910.
[22]Act No. 90, Louisiana Legislature, 1924.
[23]Act No. 90, Louisiana Legislature, 1924, Section 2.
[24]Act No. 193, Section 2, Louisiana Legislature, 1910.

law.[25] Loan companies were required by this law to obtain a license from the state and to submit to supervision by the state banking department. The maximum loan was fixed at $300, and 3½ per cent per month was made the maximum interest charge. By 1931, 92 small loan companies were in operation in Louisiana; in this year these companies made total loans of $6,966,559.91.[26]

In 1902 the legislature passed a law to regulate the building and loan or homestead associations. As amended in 1920, this law permitted any number of persons, not less than five, who were residents of the state, to "organize a corporation for the purpose of assisting the members thereof in purchasing, building, improving and repairing real estate and homesteads, and removing encumbrances therefrom, and for the purpose of loaning money to the members thereof."[27] The law places few restrictions on building and loan associations, and the state banking department has repeatedly complained of this fact. The department had this to say in its report for the year 1928-29:

> "This department has on many occasions stressed the need for greater restrictions for these institutions, and greater authority for the supervising officer . . . all that your supervising officer can do is to beg, plead and persuade until such practices endanger the safety of the institution. Then all that is left for him to do is to report the delinquent institution to the Attorney General for such action as he deems advisable . . .

[25] Act No. 7, Louisiana Legislature, 1928.

[26] Report of the State Bank Commissioner, 1930-31, p. xiv.

[27] Act No. 120, Section 1, Louisiana Legislature, 1902, as amended by Act 122 of 1920.

> It is neither right nor proper that the supervising officer be held responsible for a given task unless he can be given proper tools with which to work."[28]

From 1920 to 1930 the number of building and loan associations increased from 64 to 101, and the amount of capital from $34,000,000 to $189,000,000.[29]

The law of 1924 required that all capital be paid in before the bank began operation. Banks established under a law previous to that of 1924 were permitted to continue operation under their original charter.

In 1930 there were only two strictly savings banks in Louisiana. There were 11 trust and savings banks and 70 bank and trust companies.[30]

Banks doing business in Louisiana are taxed upon their capital stock at the same rate as other personal property under the laws of the state.[31]

> "The shares of stock and the real estate of banks, banking companies, firms, associations, or corporations, doing a banking business in this State, chartered by the laws of this state or of the United States, . . . are hereby declared subject to taxation for all purposes in the State of Louisiana.
>
> "The shares are assessed at actual value or the same percentage of actual value as that fixed on other property for State and local assessment purposes . . . to the shareholders at the domicile or location of the bank . . . regardless of the domicile of the shareholder and regardless of any transfer not registered or entered upon its books."[32]

[28]Eighteenth Report of the State Bank Commissioner, 1928-29, pp. vi-viii.
[29]Eighteenth Report of the State Bank Commissioner, 1928-29, pp. vii.
[30]Report of the State Bank Commissioner, 1930-31.
[31]Revised Statutes, 307.
[32]Act No. 14, Louisiana Legislature, 1917, as amended by Act No. 116, Section 1, 1922.

All taxes so assessed against the shares of stock must be paid by the bank, and the banks are required to collect the amount thus paid from the shareholders or their transferees.[33]

The banking house and all real estate are "assessed directly to the bank." The actual value is "determined upon by the Board of State Affairs for State assessment purposes, and the local taxing authorities for local purposes, without regard to the value of said property as shown on the statements of such banks, banking companies, firms, associations or corporations, but which shall be equal and uniform with all other classes of property."[34]

All state banks in Louisiana are required to pay both a state and a local tax. The local tax may not exceed the tax fixed by the state. The state banks are divided into 21 classes on the basis of their capital stock, and the amount of the license tax varies from $50 for banks of a capital of $25,000 or less to $5,500 for banks capitalized at $5,000,000 or more.[35]

All state banks doing business in Louisiana must submit to examinations by the state bank department. Moreover, "no person, firm, association, company or corporation, either domestic or foreign, excepting only banks organized under the laws of the United States . . . which has not received from the Examiner of State Banks a certificate of authority to do a banking business" may engage in the business of banking in Louisiana or use the word "Bank," "Banking," "Savings Bank," "Savings,"

[33] *Ibid.*, Section 2.
[34] Act No. 31, Louisiana Legislature, Sec. 1, 1914.
[35] *Ibid.*, Act 235, Sec. 4.

"Trust," "Trustee," "Trust Company," or any other word of a similar import as a part of its name or title.[36]

Stockholders of state banks in Louisiana are liable to the full amount of their stock subscriptions.[37]

Such, in brief, are the laws under which the Louisiana state banks operate.

At the close of the year 1899, the first year in which state banks were required to submit to state examination there were in Louisiana 57 state banks, with total resources of $20,713,761.03,[38] and 20 national banks, with resources of $34,000,000.[39] The following tables show the growth in number and total resources of both state and national banks from 1899 to 1930. For the sake of comparison, figures for the South and the United States are also given.

There are a number of assignable reasons for this difference in the percentage of increase in the amount of resources and in the number of the state and national banks in Louisiana. Nearly all the reasons can be summed up under the general explanation that the Louisiana system has not been so strictly regulated as the national system. The small capital requirements of the Louisiana law made possible the organization of a large number of banks that could never have secured sufficient capital to organize under the national law; and the single liability imposed upon stockholders by the state law was less frightening to bank investors than the double liability required by the national system. The state

[36]Act 137, Louisiana Legislature, 1918.
[37]*Revised Statutes*, Sec. 282.
[38]Report of the State Bank Examiner, 1900, p. 10.
[39]Report of the United States Comptroller of the Currency, 1912, p. 307.

1882-1930

NUMBER OF BANKS AND TOTAL RESOURCES[40]

(Resources Given in Thousands)

	National Banks				State Banks			
	No.	Per cent of total number	Amount	Per cent of total amount	No.	Per cent of total number	Amount	Per cent of total amount
1898								
La.	19	25	34,400	62	57	75	20,713	38
So.	537	39	387,900	62	919	61	228,451	38
U. S.	3598	47	4,944,100	73	3965	53	1,759,835	27
1909								
La.	35	15	99,300	46	187	85	120,195	54
So.	1403	39	993,696	55	2163	61	607,750	45
U. S.	6887	32	9,363,196	77	1134	68	3,338,669	23
1920								
La.	36	14	154,845	32	229	86	364,653	68
So.	1639	23	3,107,248	50	5,445	77	3,137,471	50
U. S.	8019	26	23,135,784	43	22,109	74	29,667,855	57
1930								
La.	31	13	130,807	34	191	87	446,061	76
So.	1154	22	3,512,970	55	3,950	78	2,873,110	45
U. S.	7197	34	29,116,539	65	13,682	66	15,269,902	35

Per Cent of Increase in the Number and Resources of National and State Banks

1898-1930

	Per cent of increase in number	Per cent of increase in amount	Per cent of increase in number	Per cent of increase in amount
La.	63	252	235	1065
So.	115	1390	330	1300
U. S.	100	556	242	913

[40]These figures were compiled from various reports of the State Banking Department of Louisiana and from reports of the U. S. Comptroller of the Currency.

laws with regard to the operation of banks were also more attractive to prospective bankers. State restrictions on loans were much less restrictive than the national laws. A large part of the loans of state banks were on real estate, and state banks were permitted to hold for ten years any real estate that they had secured through non-payment of mortgages.[41] Personal loans were more stringently regulated in the national system, being limited to 10 per cent of the capital and surplus of the banks. Twenty per cent of the capital and surplus of state banks might be put into personal loans; and if adequate security was furnished by the borrower, the whole amount of the capital and surplus could be loaned[42]

Still another reason for the larger growth of the state system was the opportunity that the state banks had to establish branches. By 1927, the year in which national banks were first authorized to establish branches, there were 92 branch banks in the state of Louisiana.[43]

Since 1920 there has been throughout the country a movement toward centralization in banking. This centralization has been brought about partially through failures and through consolidations and mergers:[44] from 1920 to 1930 there were 43 failures,[45] 10 consolidations, and 27 mergers.[46] It has also been

[41]Act No. 140, Louisiana Legislature, 1906.

[42]Act No. 179, Louisiana Legislature, 1902, as amended by Act No. 8, 1922.

[43]Report of the State Banking Department, 1927-28, p. lxiv.

[44]"A consolidation occurs where an entirely new bank is organized to take over two or more existing institutions, whereas a merger is effected when one of the banks already existing absorbs another institution, the latter giving up its charter and losing its identity as an independent unit." (Cartinhour, G. T.: *Branch, Group and Chain Banking*, p. 257.)

[45]Report of U. S. Comptroller of Currency, 1930, p. 664.

[46]Reports of the Louisiana State Banking Department, 1920-1930.

achieved through group or chain banking[47] and through branch banking.[48]

In 1930, 10 banks were members of groups or chains. In spite of this fact, however, chain or group banking in Louisiana is of questionable legality.

> "There are no laws in Louisiana directly applicable to bank holding corporations. While one subdivision of the 1928 Acts . . . permits corporations to acquire, and to hold, shares of any other corporation, domestic or foreign, it seems uncertain if this subdivision permits group corporations to own shares in view of certain other restrictive subdivisions."[49]

The principle of branch banking has not been given a thorough trial in Louisiana. It seems clear that if the principle of state branch banking is sound, banks should not be limited in establishing branches to any political subdivision of the state. Too often it happens that the trade area of a banking center does not coincide with the area of the county or parish in which the bank is located, and in a restricted system a bank is often unable to supply banking facilities to its natural trade territory.

Up to 1930 only one bank operating branches had failed. Five branches, two of which were in New Orleans, had been withdrawn. All the withdrawals were caused by insufficient business.[50]

The following table shows the number of branches both state and national; the total number of banking

[47] As defined by the Federal Reserve Board, chain or group banking is "control exercised principally through stock ownership, or by a holding company, or in some instances by a bank, either directly or indirectly through a subsidiary company." (Report of the Federal Reserve Board, 1928, p. 30).

[48] "Branch banking may be considered to exist when a parent bank opens city, county, or state-wide branches, all functioning under one head office, with a common capitalization available for all branches, with identical stockholders and a single charter." (Cartinhour, G. T.: *Branch, Group, and Chain Banking*, p. 277.)

[49] *Ibid.*, p. 212.

[50] Report of the State Banking Department, 1929, p. xlviii.

offices (branches plus banks); and the per cent of the banking offices that were branches in 1930 in the twelve states with branch bank laws similar to those of Louisiana.[51]

State	Number of branches	Total No. of bank offices	Per cent the branches were of the total
Georgia	42	432	9
Kentucky	31	580	5
Louisiana	108	330	32
Maine	66	197	33
Massachusetts	168	617	27
Michigan	434	1165	38
Mississippi	25	318	7
New Jersey	106	666	15
New York	750	1872	40
Ohio	264	1250	21
Pennsylvania	194	1735	11
Tennessee	69	548	12
Total	2,257	9,710	23

The following table shows the number of branches in the home office, the number of branches outside the home office, and the per cent of branches outside the home office in 1930 in the twelve states with branch banking laws similar to those of Louisiana.

NUMBER OF BRANCHES

State	In home office	Outside of home office	Total	Per cent of branches outside home office
Georgia	19	23	43	54
Kentucky	28	3	31	9
Louisiana	51	57	108	55
Maine	7	59	66	8
Massachusetts	148	20	168	11
Michigan	434	0	434	0
Mississippi	1	24	25	96
New Jersey	96	10	106	9
New York	750	0	750	0
Ohio	232	32	264	12
Pennsylvania	185	9	254	3
Tennessee	31	38	69	55
Total	1,982	275	2,257	12

[51]Federal Reserve Bulletin, Dec., 1930, p. 815.

APPENDIX I[1]

LOANS AND DISCOUNTS, SPECIE, CAPITAL STOCK, CIRCULATION AND DEPOSITS OF LOUISIANA BANKS FROM 1805 TO 1863

(000 omitted for all items except the number of banks)

Year	No. of Banks	Capital Stock	Loans and Discounts	Specie	Circulation	Deposits
1805	1	500				
1810	1	500				
1820	4	2,592				
1830	4	5,605				
1835	41	26,422	37,388	2,824	5,114	7,106
1836	45	34,065	51,236	2,607	7,130	11,744
1837	47	36,769	59,108	3,108	7,909	11,487
1838	47	39,943	55,593	2,729	7,558	7,426
1839	46	40,930	56,593	3,987	6,280	7,657
1840	47	41,726	49,138	2,847	4,345	5,415
1841	47	41,711	48,646	3,153	6,443	3,094
1843	28	20,926	20,420	4,451	1,167	5,338
1844	28	20,049	16,737	7,889	1,721	6,473
1845	28	19,670	18,017	8,282	2,099	8,418
1846	28	17,538	21,582	6,636	4,206	9,449
1847	28	17,090	23,869	5,720	4,753	7,983
1848	28	15,575	21,497	5,578	3,709	8,654
1849	28	15,236	19,173	8,153	4,165	8,427
1850	28	14,257	18,602	6,979	5,069	8,210
1851	29	12,370	23,199	5,750	5,090	8,275
1852	29	12,205	22,407	4,355	3,514	6,948
1853	29	10,934	17,034	5,946	4,409	10,555
1854	19	17,359	29,320	7,468	6,969	11,743
1855	19	20,179	27,142	6,570	6,586	11,688
1856	19	19,027	27,500	8,191	7,222	14,747
1857	19	21,730	31,200	6,811	9,194	13,478
1858	15	22,800	23,229	10,370	4,366	11,638
1859	12	24,215	29,424	16,218	9,094	21,822
1860	13	24,096	25,001	12,115	11,579	19,777
1861	13	24,634	26,364	13,656	6,881	17,056
1863	6	17,388	16,225	8,806	8,876	5,810

[1]These figures are taken from House Document 3704, Vol. 76.

APPENDIX II[1]

THE NUMBER, CAPITAL STOCK, AND LOANS AND DISCOUNTS OF LOUISIANA STATE BANKS 1864-1897

(000 omitted for all items except the number of banks)

Year	No. of Banks	Capital Stock	Loans and Discounts	Deposits
1864	10	22,248		
1865	10	7,671		
1866	7	9,271		
1867	7	9,271		
1868	11	10,014		
1869	11	8,270		
1870	12	7,801		
1871	12	7,055		
1872	9	5,717		
1875	5	3,729	4,441	6,149
1876	6	3,584	5,195	6,300
1878	10	4,353	7,048	6,082
1879	10	4,428	6,428	6,393
1880	10	4,458	6,108	7,086
1881	10	4,458	6,108	7,086
1882	4	2,213	6,411	6,407
1883	4	2,213	6,411	6,407
1884	4	2,563	6,849	6,732
1885	4	2,582	4,036	5,816
1887	5	2,017	5,259	5,660
1888	6	2,117	3,823	5,819
1889	6	2,130	5,675	5,899
1890	6	2,130	6,235	7,486
1891	11	2,620	7,528	7,519
1892	16	2,820	7,644	8,515
1893	18	2,755	8,451	8,338
1894	22	2,840	8,031	8,543
1895	27	2,882	7,591	8,228
1896	20	2,517	6,825	7,128
1897	20	2,413	5,845	5,942

[1]These figures are taken from House Document 3704, Vol. 76.

APPENDIX III[1]

TABLE SHOWING SEVERAL ITEMS FOR NATIONAL BANKS IN LOUISIANA FROM 1864 TO 1898

(000 omitted except for number of banks)

Year	No. of Banks	Capital Stock	Surplus	Undivided Profits	Total Resources
1864	1	500		76	2,210
1865	1	500	17	183	5,089
1866	3	1,800	35	340	3,637
1867	2	1,300	59	119	684
1868	2	1,300	62	105	1,128
1869	2	1,300	70	93	1,483
1870	2	1,300	107	102	1,446
1871	7	3,500	145	247	4,670
1872	9	4,850	220	311	6,425
1873	9	4,750	297	300	7,512
1874	7	3,850	277	358	4,901
1875	7	3,650	483	353	5,673
1876	7	3,300	539	284	5,922
1877	7	3,300	516	269	5,237
1878	7	2,615	573	340	4,839
1879	7	2,875	448	299	5,297
1880	7	2,875	570	320	6,013
1881	7	2,875	815	336	6,487
1882	8	2,945	965	392	8,053
1883	8	3,225	1,102	414	8,136
1884	9	3,625	1,102	555	7,122
1885	9	3,025	1,306	506	8,994
1886	9	3,525	1,154	452	10,402
1887	13	3,425	1,229	595	11,912
1888	13	3,425	1,508	395	12,880
1889	15	3,685	1,658	370	14,784
1890	19	4,325	1,901	771	14,359
1891	21	4,435	2,091	735	18,328
1892	21	4,435	2,148	775	13,549
1893	20	3,935	2,496	673	15,513
1894	19	3,760	2,612	543	18,039
1895	19	3,660	2,740	452	10,081
1896	18	2,860	2,608	488	15,301
1897	19	3,160	2,679	519	16,503
1898	19	3,160	3,736	622	18,395

[1]House Document 3704, Vol. 76, and report of the U. S. Comptroller of the Currency, 1898.

APPENDIX IV[1]

PRINCIPAL ITEMS OF RESOURCES AND LIABILITIES OF STATE BANKS IN LOUISIANA FROM 1899 TO 1930

(000 omitted except in number of banks)

Year	No. of Banks	Loans and Discounts	Capital Stock	Surplus	Undivided Profits	Total Resources
1899	56	12,666	3,796	514	916	22,208
1900	61	14,524	4,907	550	1,059	22,694
1901	66		4,214	928		55,622
1902	92		4,635	966	1,198	64,887
1903	102	37,312	8,275	4,259		58,648
1904	131	43,597	8,635	4,605	1,479	71,359
1905	144	53,995	10,998	5,611	1,605	89,259
1906	165	61,302	14,089	6,815	1,993	99,495
1907	178	63,902	14,777	7,493	2,221	102,413
1908	185	51,875	14,066	7,444		97,949
1909	187	63,762	13,231			108,914
1910	206	27,787	13,677	7,544	2,541	119,512
1911	208	74,624	13,851	6,938	1,304	127,159
1912	216	78,849	14,123	6,739	3,005	127,740
1913	217	76,327	14,938	7,052	2,305	124,500
1914	214	72,464	14,779	7,528	2,341	126,109
1915	210	88,830	14,720	7,543	2,752	131,103
1916	209	87,350	14,079	7,600	2,769	159,976
1917	210	112,190	14,721	8,031	2,181	230,824
1918	211	140,610	16,053	8,961	2,228	260,490
1919	221	211,110	18,991	9,981	3,328	380,502
1920	237	251,109	21,356	11,601	3,517	377,929
1921	231	213,406	23,044	12,052	3,538	332,242
1922	230	218,429	23,227	12,002	3,583	364,863
1923	227	240,605	22,776	12,825	3,882	402,807
1924	216	248,070	23,060	13,469	4,048	411,295
1925	214	270,179	24,045	14,098	4,292	447,062
1926	201	264,599	24,280	14,693	5,409	433,676
1927	200	253,847	24,361	15,026	4,544	442,168
1928	195	252,098	24,097	15,680	5,225	452,654
1929	191	256,590	24,563	16,141	5,620	446,061
1930	183	220,280	24,180	14,944	5,931	393,576

[1]These figures were taken from the reports of the State Banking Department of Louisiana from 1899 to 1930.

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